S. HRG. 112–500

THE FY 2013 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

MARCH 29, 2012

Printed for the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.fdsys.gov

U.S. GOVERNMENT PRINTING OFFICE

75–017 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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THE FY 2013 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

THURSDAY, MARCH 29, 2012

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

The Committee met in a roundtable discussion, pursuant to notice, at 10:23 a.m., in Room 428A, Russell Senate Office Building, Hon. Mary L. Landrieu, Chair of the Committee, presiding.

Present: Senators Landrieu, Pryor, Cardin, Shaheen, Hagan, and Snowe.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good morning. Let me call our Small Business budget hearing to order and apologize for the delay. I had an early morning speech way over in Old Town, Virginia, and traffic is not easy in the morning. So I thank everyone for being here, and I am going to go right into my opening statement.

Thank you all for joining us today. I would like to thank particularly Administrator Mills and our witnesses for coming today. There is nothing small about small business in America. According to the SBA, small businesses are responsible for employing roughly half of all working Americans. Entrepreneurs pump almost $1 trillion into the economy and have generated 60 to 80 percent of net new jobs annually over the last decade.

Many of these small business owners rely on SBA counseling, contracting, and loan programs to help get their businesses started, expand their business, and develop their business plans.

In his fiscal year 2013 request for the SBA, President Obama once again signaled his commitment to our nation's nearly 28 million small businesses by submitting a strong and fiscally responsible budget of $949 million in funding for the agency, plus $167 million for disaster loans. This is a good budget in tough budgetary times. It makes investments in key programs that will enable the agency to fulfill its core mission.

One of the things I wanted to mention before we get into the budget specifically is our Small Business Jobs Act, which this Committee, Senator Pryor particularly, and others, worked so hard with me to spearhead. The President signed it into law 18 months ago.

It has had a very, very positive effect on bank lending and retail sales. The GDP, an important indicator of our nation's economic health, has grown for the tenth consecutive quarter. This landmark

Small Business bill added billions of dollars of lending and investment to America's entrepreneurs and provided $12 billion in tax cuts to small businesses from coast to coast.

In addition, recognizing that less than 1 percent of small businesses export, we stepped up in that bill some important export opportunities. I just was recently hearing from my state that they are absolutely thrilled to have received one of the 40 STEP grants that were given competitively.

They have never received a grant like this from the Federal Government and they are very excited about stepping up their export opportunities. So the partnerships that are being created, I think, Administrator Mills, at the state level are quite exciting when it comes to export. I know you will have a lot more to say about that.

The SBA approved nearly 22,000 loans during the first quarter of 2011. This was a record quarter. We now have 157 active lenders, as we financed almost 1,000 small business commercial mortgages totaling $1 billion in volume through the 504 Commercial Mortgage Refinancing Program, which has been extremely popular and, I think, very helpful to keeping people's balance sheets in order and helping some our businesses roll through this very tough time.

I mentioned the STEP grants, so I will not go through those, but I will highlight a few other interesting facts. More than 2,400 small businesses have received loans above $2 million. More than 338 microloans have been made above $35,000. The SBA has 20 new microloan lenders on board to participate in the ILP Program championed by Senator Levin.

The other good feedback we are getting, Senator Snowe, is from our state partners, particularly Michigan and North Carolina, and there are some other states that have been really excited about the new partnerships that we have with them.

Let me just say something about the budget and then I will turn it over to Senator Snowe. The $348 million to support $16 billion in 7(a) and $6 billion in 504 lending, both of these programs have proved enormously successful over the course of their lifetimes. I would like to see these programs expand. I know there is some subsidy required to do that. I would like to talk about how to potentially do that as we move forward on the budget.

The $167 million to administer the SBA Disaster Loan Program is critical to getting loans out to places along the East Coast and, of course, through our mid section of the country with the recovery still in progress from tornados, et cetera.

This is a strong budget for the agency, but I am concerned about reducing the budget for counseling and technical assistance. The negative impact such cuts could have on critical core services for American entrepreneurs—and over and over again I will say in the hearings that I have, Administrator Mills, people that are on the street, entrepreneurs say that partnerships, mentorships, besides capital, besides access to capital, is crucial.

We have had business people sit here and say, right where Senator Pryor is sitting, "If it was not for my mentor from the SCORE organization, I never would have been able to restructure my business in a difficult time."

In times where the economy is constricting, our efforts on mentorship and apprenticeship need to be moving upwards, because we have to counter the downpull on these businesses and help businesses to think differently, how to market their product differently, maybe even change their business plan, and that takes know-how and you are not going to learn that in college. You are going to learn it from an experienced business person.

The final thing I want to say is that I am going to take a very strong interest in focusing on the quality of our programs and measures of success. I believe, Senator Snowe, and I know you do, when we try to manage something, you have got to be able to measure it before you can manage it well. I know that you understand this.

I am having a little difficulty getting some quality control information from some of the things that we fund in this budget. I just want the Committee to know that is going to be one of my priorities. I am anxious to hear your priorities and to work with all of my members on fashioning the very best budget we can to do the very best work out of Washington, partnering with local banks, community banks, other non-bank lenders, and our states to help get money to Main Street.

Senator SNOWE.

OPENING STATEMENT OF HON. OLYMPIA J. SNOWE, RANKING MEMBER, AND A U.S. SENATOR FROM MAINE

Senator SNOWE. Thank you, Chair Landrieu, for calling this hearing today to discuss the Small Business Administration's fiscal year 2013 budget request. I am very pleased that we have Administrator Mills testifying here today. Our nation could not ask for a better small business champion.

As an early and ardent proponent of restoring the SBA Administrator position to Cabinet-level status, it was a tremendous victory for small businesses that this long overdue promotion has finally come to fruition. Creating a seat for SBA at the President's highest table is a signal to our fragile economy that America's small business will, in fact, drive our nation to full recovery.

I am as confident now as I was when I first called for this position's elevation that Administrator Mills is precisely the right person at the reins of the agency responsible for America's preeminent job generators.

And especially at this critical time where we need economic growth and we need to bolster small businesses, SBA is certainly filling the vacuum with a record level amount of lending of more than $30 billion to 60,000 businesses, which I gather is record level lending for small business in SBA history, and is an indication of the fundamental pivotal role that the SBA is playing at this moment in time with the exceptional leadership of Administrator Mills. I think it is without question, as we talk to small businesses, that they desperately need access to capital, especially at a time when more than $2 trillion is sitting on the sidelines among other businesses who are not in a position or are not willing to make the investments within their businesses or for additional hires.

I would also like to thank Dr. Sargeant from the Office of Advocacy and SBA Inspector General Peggy Gustafson for coming today, and for their tireless work on two of my biggest priorities, which is to reduce the Federal regulatory burden on small businesses and rooting out fraud, waste, and abuse in the Federal Government.

Finally, I would also like to thank our knowledgeable witnesses, most especially Bill Shear from the Government Accountability Office, Chris Hurn with Mercantile Capital, Tony Wilkinson with the National Association for Government Guaranteed Lenders, and Ridgely Evers with the Board of Directors for SCORE. I certainly appreciate everybody being here today to provide suggestions for streamlining the SBA's budget.

In my capacity as Ranking Member, this marks my tenth SBA budget hearing. It is hard to believe it has been a decade, Chair Landrieu, either as Chair or Ranking Member. It is through this lens that I am considering the 2013 budget. With our country's economic recovery from the recent recession still lackluster at best, because the economic growth numbers are not where they should be that would generate the kind of job growth that we should have at this moment in time, we have to ensure the SBA can be the catalyst small businesses require to get Americans back to work.

It has not been an easy task, considering the fact that we are facing alarming budget challenges and deficits. But as I indicated, with Administrator Mills at the helm, there is no doubt that that is happening.

The 2012 SBA budget, excluding disaster funding, was approximately $800 million. The 2013 request is a 15 percent increase over last year. A full 96 percent of this increase is to subsidize the SBA's lending programs, due in large part to rising defaults. Administrator Mills and I discussed this yesterday, about my concerns regarding the skyrocketing increases in loan subsidies.

I have a chart that I will illustrate in my question period, but it indicates that the 7(a) and the 504 programs, when they operated at zero subsidy, mean the programs paid for themselves with no fees, with no requirement for taxpayer support. In each of fiscal years 2010 and 2011, the SBA required $80 million to subsidize these programs due to increased defaults, and this year, subsidies have grown $350 million, marking an astounding increase from the 2009 level of zero. We had five years of zero subsidies and then we went from $80 million to $350 million.

Last year, I expressed concerns about the subsidies being too high, at $210 million, but was told the request represented an anomaly because the SBA was working through the bad loans. This year, however, marks the second consecutive year with yet higher subsidies with an explanation that obviously the worse loans are still filtering through the system and things should bounce back by next year. But I am not so sure that the problem is simply going to get better with time, and although I agree that SBA loans are still a good return on investment, that does not mean that we shouldn't focus like a laser in addressing the very real concerns of increased subsidies.

The SBA should establish a clear plan to reduce its subsidy costs in the future. Looking at historical data, subsidies compared to the overall SBA budget just get higher every year. They accounted for 12 percent of the total SBA budget in 2011, 26 percent in 2012, and now a 37 percent increase in 2013. This is the paramount issue, in my view, in the agency's 2013 budget.

On the one hand, the Administration is asking for more money to cover increased subsidies; on the other hand, the Administration is failing to recover losses on defaulted loans, and thus, lower the subsidy rate. According to the SBA's own estimates, the Administration has written off nearly $2 billion in the 504 program alone. A recent independent audit of the Administration's 2011 financial statements revealed that the SBA failed to refer over 5,000 eligible co-borrowers and guarantors to the Treasury for cost servicing and offset for at least $226 million.

Even the SBA's Inspector General has highlighted in her testimony today the need for the SBA to address the heightened risk of losses. The Administration must formulate a meaningful plan to address defaults, recover on losses, and cease the out-of-control costs of these programs to taxpayers. There are other issues that I have of concern that I will raise during the course of question and answers so that we can move to the testimony.

I do want to commend Administrator Mills for reining in the administrative expenses of the agency. The increase in the executive direction budget from 2012 to 2013 is negligible at just $115,000, down 21 percent from the 2011 level of $26 million.

Further, agency-wide, overhead costs are largely held steady or reduced in this year's budget request. So again, I want to commend you, Administrator Mills, for your leadership in this regard. Thank you, Madam Chair, and we will proceed to questions.

Chair LANDRIEU. Senator Pryor.

Senator PRYOR. I will just submit mine for the record, but thank you very much.

[The prepared statement of Senator Pryor follows:]

Senator Pryor Opening Statement

SBA FY2013 Budget Hearing

I would like to welcome all of today's witnesses to this hearing on the SBA Fiscal Year 2013 budget.

I hear from many Arkansas small businesses that they continue to struggle to get credit and make payrolls. A lot of these companies are being turned down for loans because their owner's credit scores have fallen due to the recession. For many of these companies, the SBA capital access programs are a lifeline. However, I am often told that it still takes companies a long time to get approved for 7(a) or 504 loans.

I am pleased by the work the SBA is doing on innovation, entrepreneurship and competitiveness. Last year, Congress reauthorized the SBIR and STTR programs, which provide important funding for innovative research by small businesses. SBA also launched the Regional Innovation Cluster program and the new Impact Investment Fund for Small Business Investment Companies willing to target areas of critical national priority including underserved markets. All of these programs are important to U.S. competitiveness.

Thank you for participating in this hearing and I look forward to your testimony.

Chair LANDRIEU. Thank you so much. Proceed, please.

STATEMENT OF HON. KAREN MILLS, ADMINISTRATOR, UNITED STATES SMALL BUSINESS ADMINISTRATION

Ms. MILLS. Chair Landrieu and Ranking Member Snowe and members of the Committee, I am very pleased to testify before you. First I want to thank this Committee for its strong support of our agency and for its unwavering commitment to America's small businesses.

I also want to thank the Committee for the passage of the long-term SBIR preauthorization. This extension supports critical funds for research and innovation for entrepreneurs and has helped found some important companies like Qualcomm and Symantec.

You all know the facts and Chair Landrieu just reiterated some of them. Over the last 15 years, small businesses have created two out of every three net new private sector jobs and over half of all working Americans own or work for a small business. Our goal at the SBA is to make sure small businesses remain well-positioned to do what they do best, grow and create jobs.

The President's proposed fiscal 2013 budget for the SBA of $1.1 billion, which includes the funds for our disaster-related programs, is focused on helping more entrepreneurs and small business owners compete and win in today's economy. Government does not create private sector jobs. We provide small businesses with the tools that they need to start, to grow, and to create these jobs.

I think the owner of a company we work with called Quality Electrodynamics in Ohio summed it up best. He said, Government cannot start your business, but they can help accelerate what you do. To make that possible, we are focused on three key objectives that are reflected in the President's proposed budget.

First is continued access to capital. As the Chair mentioned and the Ranking Member mentioned, in 2011, we had a record year. We supported more than $30 billion in lending to over 60,000 small businesses. This is the most capital going into small businesses in a single year in our agency's history.

Today, credit markets are improving, but there are still gaps, particularly for smaller loans and in under-served communities and we are working to make sure those gaps are filled.

Second, the fiscal 2013 budget reflects the needs of high growth entrepreneurs. These companies are proven job creators, but they require specialized tools, long-term capital to accelerate their business growth. In 2011, our small business investment companies also had a record year, putting $2.6 billion directly into the hands of more than 1,300 of these high-growth businesses. I would like to thank the Chair and the Ranking Member for their efforts to build on the SBIC's program success through increased authorization levels and other legislative improvements.

Third is our counseling and mentoring activities. These programs assisted more than one million people in 2011. In fiscal year 2013, we are strengthening our veterans' program and the skills-based training and counseling programs that are needed to ensure a path to successful entrepreneurship.

Estimates show there will be approximately 300,000 returning veterans looking to transition to the civilian workforce in fiscal

2013. These returning veterans are natural business leaders and we are committed to providing them with the training and the resources they need to be successful business leaders.

This includes an SBA-led National Government-wide veterans' Entrepreneurship Training Initiative. The fiscal 2013 budget also reflects our continued commitment to streamlining our processes while creating efficiencies and eliminating duplication, as well as our ongoing efforts to combat fraud, waste, and abuse.

Two examples of these initiatives are our efforts to consolidate our data infrastructure and continued development of BusinessUSA.gov, a user-friendly virtual one stop for accessing small business-related programs across the Federal Government.

Overall, our goals remain twofold, getting the right resources into the hands of more small business owners and entrepreneurs, and making sure these programs are effective, easy to use, and most importantly, that they give the American taxpayer a good bang for the buck. I look forward to working with all of you to ensure that small businesses are front and center in our efforts to create jobs and foster a 21st century American economy that is built to last. Thank you very much.

[The prepared statement of Ms. Mills follows:]

TESTIMONY OF
KAREN G. MILLS
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP
MARCH 29, 2012

Chair Landrieu, Ranking Member Snowe and members of the Committee. I'm pleased to testify before you.

First, I want to thank this committee for its strong support of our agency, and for its unwavering commitment to America's small businesses.

I have not had the opportunity to testify before this Committee since the passage of the long-term SBIR reauthorization. This long-term extension was critical to giving more small businesses the stability they need to utilize this program—and I want to thank you for your leadership.

You all know the facts: Over the last 15 years, small businesses have created two out of every three net new private sector jobs. And over half of all working Americans own or work for a small business.

Our goal at the SBA is to make sure that small businesses remain well-positioned to do what they do best: grow and create jobs.

We've been able to do this in large part because of budget and bipartisan legislative support from members of this committee and across Congress.

The President's proposed FY13 budget for the SBA of $1.1 billion, which includes funds for our disaster-related programs, is focused on helping more entrepreneurs and small business owners compete and win in today's global economy.

Government doesn't create private sector jobs – we provide small businesses with the tools they need to start, to grow and to create those jobs.

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Today, the credit markets are improving, but there are still gaps, particularly for smaller loans and underserved communities. We are working to make sure those gaps are filled.

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And I would like to thank the Chair and Ranking Member for their efforts to build on the SBIC program's success through increased authorization levels and other legislative improvements.

Third is our counseling and mentoring activity. These programs assisted more than one million people in 2011. In Fiscal Year 2013, we are strengthening our veterans programs and the skills-based training and counseling programs that are needed to ensure a path to successful entrepreneurship.

Estimates show that there will be approximately 300,000 returning veterans looking to transition to the civilian workforce in FY13.

These returning veterans are natural leaders. And we are committed to providing them with the training and resources they need to be successful business leaders. This includes an SBA-led national, government-wide Veterans Entrepreneurship Training Initiative.

The FY13 proposed budget also reflects our continued commitment to streamlining our processes, while creating efficiencies and eliminating duplication, as well as our ongoing efforts to aggressively combat fraud, waste and abuse.

Two examples of these initiatives are efforts to consolidate our data infrastructure and the continued development of BusinessUSA.gov, a user-friendly, virtual, one-stop shop for accessing small business-related programs across the federal government.

Overall, our goals remain twofold: Getting the right resources into the hands of more small business owners and entrepreneurs. And making sure that our programs are effective, easy-to-use – and, most importantly, that they give the American taxpayer the most bang for their buck.

I look forward to working with all of you to ensure that small businesses are front and center in our efforts to create jobs and foster a 21st Century American economy that is built to last.

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Chair LANDRIEU. Thank you. We have been joined by Senator Shaheen. I so appreciate her continued and extraordinary support for the work of this Committee. Thank you, Senator.

Let me get right into the questions, and I am going to follow up on some of the comments that my Ranking Member made, because I respect her views so very much and I want to jump right into it, this runaway subsidy issue. Could you please address that? Because one of the things that I have tried to do is to improve the quality of programming for the taxpayers.

So that we are investing this $1 billion to stretch it, which is a small amount of money relative to other budgets. I also chair the Appropriations Subcommittee on Homeland Security and that budget is $42 billion, just to give you relative numbers here. So a billion dollars is a lot of money, but relative to other budgets of the Federal Government, I think it is one of our—it is our smallest.

I think this agency does a great deal of good with that investment. But we do want to run it as efficiently, as effectively, and as business-like as possible, recognizing there are differences between government and business that sometimes get lost up here.

But let us talk about the subsidy rate. What would be your response to Senator Snowe's comments about runaway subsidies and the default rate?

Ms. MILLS. Thank you. As we just discussed, we had a record year. We supported $30 billion last year. The fiscal budget that we are requesting is for $351 million in subsidy to support $22 billion in loans in the hands of small businesses. So $351 million in subsidy supports $22 billion. That is about a 1.8 percent subsidy rate.

So we have actually very low default rates, a very low subsidy rate. I want to make sure that the Committee understands that the increase in subsidy rates is not due to increases in default rates in recent loans. Recent loans are performing well and default rates are declining.

The subsidy rates are done by formula and they have a number of inputs. First are economic variables and they are set a period of time ahead. So once again, they will, going forward, begin to reflect the improving unemployment numbers, but do not necessarily do so yet.

Second, the loans' default rates that are in the subsidy rate that are causing it to rise are from the 2005, 2006, 2007, and 2008 cohorts. At those periods of time, a number of loans were made which ended up having poor performance, high default rates, and poor recoveries particularly due to the fact that commercial real estate values which were high at the time of the loan then dropped and did not support the loans and the loan recovery.

Chair LANDRIEU. So what you are saying is the default rates primarily are loans that were made or defaulted in 2005, 2006, 2007, and 2008? Is that what you said?

Ms. MILLS. That is correct.

Chair LANDRIEU. And it was because of the recession and former practices, or maybe not, but former practices, perhaps, but the constriction in the economy. But that is not reflective under your watch, is what you are saying?

Ms. MILLS. Yes. I want to make it very clear that the facts support recent loans are performing well. Our default rates are declining. So we should expect, over the longer term, those will become part of the subsidy rate calculation.

Chair LANDRIEU. The other question I want to ask, because this is really crucial to these core programs, 7(a) and 504. This Committee purposely—and I think we did it all together, as I recall—reduced, argued for an elimination of the fees and an increase from 75 percent to 90 percent of the guarantee. So how did that affect the subsidy rate and what was the effect to the businesses?

Did they receive those reductions in fees which you could say was a tax on small business that we took away so that people could borrow money in a more economical way to themselves, even though it was a cost to our Government?

Ms. MILLS. In the Recovery Act, I want to thank Congress because at that absolutely critical time when credit markets were frozen, the Recovery Act allowed us, as you just mentioned, to reduce or eliminate most of the fees and to raise our guarantee to 90 percent. And that was so successful that Congress reauthorized more money for it four different times and then culminated a fifth time in the Small Business Jobs Act.

That is one of the reasons—the strength of that is one of the reasons why we had such a record year. We were able to step into a gap where the market had failed, no one could get a loan, good small businesses were turning to the SBA, and people saved their fees, put them back in their businesses, bought more equipment, and were able to come through the recession in strong order. So those were definitely very, very successful and important programs.

Chair LANDRIEU. And just to finalize, one of the things I am going to focus on with the members this year of this Committee is how we could go into a long-term authorization of reduction of fees because I think it has worked so well.

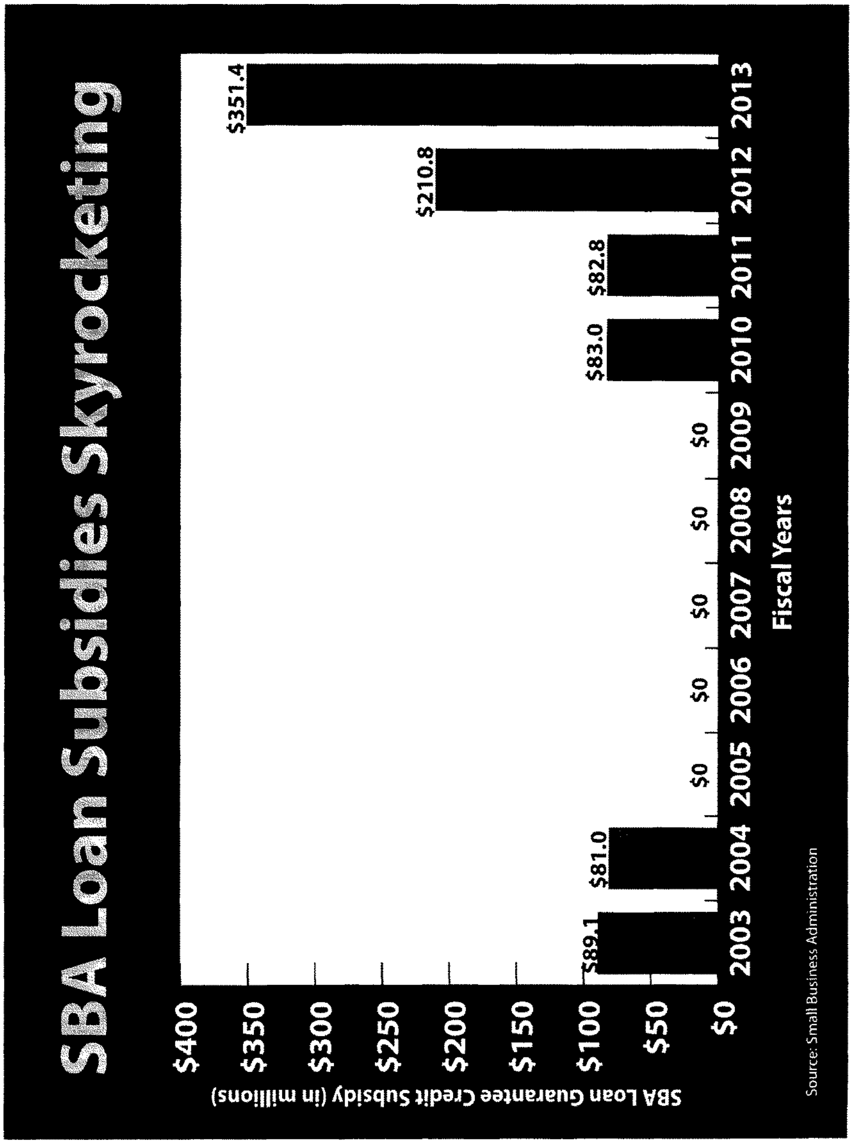
I would like to see if there is some other way to recoup those dollars to the Federal Treasury, because I have been told over and over and over again by every business that has used the program that that is one of the reasons they used the program, because instead of paying $13,000 or $25,000 or $33,000 in fees up front, they could put that money in their pocket, reinvest in their business, and it really spurred additional interest in those programs.

So let me turn it over to the Ranking Member now and then we will go through a series of questions. We have been joined by Senator Cardin. Thank you very much.

Senator Snowe.

Senator SNOWE. Could you put the chart up? Thank you.

[The chart follows:]


SBA Loan Subsidies Skyrocketing
SBA Loan Guarantee Credit Subsidy (in millions)
$400
$350
$300
$250
$200
$150
$100
$50
$0
$89.1
$81.0
$0
$0
$0
$0
$0
$83.0
$82.8
$210.8
$351.4
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Fiscal Years
Source: Small Business Administration

Thank you, Madam Chair. I would like to get to the loan subsidy issue. I would appreciate if we could have those numbers in those zero years? Obviously I gathered that everything contributed to the real estate devaluation in those zero years in which there was no subsidy rate by the taxpayers.

Ms. MILLS. We would be happy to get you those numbers.

Senator SNOWE. As you can see in the chart, there is a tremendous growth in subsidies and that is the concern. I am wondering, is it all attributed to the fact that those loans were issued in the five years in which there was zero subsidy?

Ms. MILLS. Senator, we would be happy to get you the background numbers behind those cohort years and those default rates. But yes, in fact, the chart there actually shows that the subsidy, in 2012 and 2013, is high because it is reflecting losses from the 2005, 2006, 2007, and 2008 cohorts.

Senator SNOWE. So it was not a matter of the origination, but it was a matter of what happened during the real estate time. So is that the reason for the tremendous growth this year that you are proposing?

Ms. MILLS. Yes. The subsidies, the formula, it includes losses from the portfolio which is driven by those cohort years at the moment, and also economic variables.

Senator SNOWE. I am interested in the econometric model that the Administration used to calculate the future loan performances. What were the unemployment numbers? I understand it was about 9.3; is that correct?

Ms. MILLS. We would be happy to get them for you. The formula is set in advance so it lags the current numbers.

Senator SNOWE. As I understand, based on the request for the subsidy increases, the econometric models with respect to unemployment as well as economic growth is much higher and based on the wrong indicators. I would appreciate that information, as well, to understand the assumptions that were used to calculate this subsidy request based on future loan performances.

Ms. MILLS. Yes, we would be happy to.

Senator SNOWE. Were there any questions raised about the accuracy of those estimates?

Ms. MILLS. Well, there is a series of economic variables that are part of the model. It is an econometric model. It is set in advance so that, once again, we would anticipate the current economic performance, which has improved, to be reflected in future subsidy rates and bring them down.

Senator SNOWE. The issue of subsidies is quite substantial. I think that that is what is troubling, and obviously we have to get to the heart of that matter in terms of what is driving it and whether or not that is as accurate as it could be based on the accurate unemployment numbers and economic growth.

In addition to that, why has the Administration written off nearly $2 billion in the 504 program and not attempted to recover those losses?

Ms. MILLS. I want to assure this Committee, we attempt to recover every penny for taxpayers, and we have gone through each piece of the process. We are partnered with our CDCs, which are our community development companies who help us make those loans, and we work across the board. Where we are not referring to Treasury, we are now referring to Treasury, and we are going to continue to turn over every rock to find every possible recovery.

Senator SNOWE. I was raising that question because of the Inspector General's report that did a review, an audit of SBA, and indicated that the SBA did not refer more than 5,000 eligible co-borrowers and guarantors to the Treasury for cross-servicing and offsets.

Ms. MILLS. I am happy to get you the information on that. My understanding is that is at the very end of the process and that we are now referring them all to Treasury.

Senator SNOWE. Okay. So on the $2 billion, has it been written off?

Ms. MILLS. The amounts that have come to Treasury, that $2 billion, there are a number of pieces of it and we can put it together. Part relates to an old program called Participating Securities, which is an SBIC program that was terminated in 2004 that is still creating write-offs, and we have terminated and no longer do that program. The other piece is largely driven by 504 and commercial real estate is one of the main drivers.

Senator SNOWE. Just so I understand, will you be referring these 5,000 eligible co-borrowers and guarantors and banks that the IG's report has highlighted?

Ms. MILLS. I believe we have.

Senator SNOWE. To Treasury for debt collection?

Ms. MILLS. But if we have not, we absolutely will.

Senator SNOWE. Yes, because this was based on a report that was issued in December 2011, in accordance with the Debt Collection Improvement Act of 1996. Could we have a report on that as well?

Ms. MILLS. Absolutely.

Senator SNOWE. Because I think it is really important for us to do everything we can to collect every dollar to the extent possible. We realize sometimes it costs more to collect the debt than what is owed. We have learned that through even the IRS, but we certainly should be making attempts to do that.

According to this report, it has not been done, and I think it is very critical because we have to do everything we can, as you well know, to safeguard taxpayers' funds, especially because of these large increases in subsidies. I think it gets back to the heart of that question because we certainly have not had a strong economic recovery, and the growth is lackluster.

We could continue to have serious problems with the loans that are even being issued in this period of time. So thank you.

Chair LANDRIEU. Thank you.

Mr. Pryor.

Senator PRYOR. Thank you, Madam Chairman. Thank you both for hosting this and I want to thank you for being here on behalf of the SBA because SBA does a lot of great things around the country. Let me say that my understanding is you have traveled extensively around the country. You are hearing from businesses all over the country. And I know you mentioned some of that in your testimony.

But have you taken some of the ideas that you have picked up on the road and are they in your budget? Are you trying to translate those into priorities for SBA?

Ms. MILLS. Absolutely. I have traveled to about 40 states, trying to make it to every place, many states, of course, multiple times. I pretty much travel every week and when I go to a state, when I came to your great state, I did go to Arkadelphia and we had— I visited a sawmill, met with the lumberjacks, actually, and we had a roundtable of lenders. We have a processing center there. I visited our SBA offices.

But each place we have a roundtable of small businesses and usually a roundtable of lenders. The inputs from that allow us— and my deputy is on the road as well. We understand. We make it a point to know what is happening in our network on the ground. We make it a point to listen to small business and incorporate those things into both our policy pieces and just our programmatic changes.

So if we hear this program needs streamlining, there are too many forms, we respond to that as well.

Senator PRYOR. Okay, great. And let me ask about something that I am a big supporter of and that is regional innovation clusters. I know that is one of your priorities as well. Let us see. You are asking for $3.35 million in FY2013 to continue your program. My questions are really two or three in number.

First, what regional innovation clusters have you supported in the past? And second, what would your criteria be for that support? And then third is, the Economic Development Administration also has a regional innovation cluster program. I am curious if this is an overlap or if you guys work in concert?

Ms. MILLS. Well, number one, thank you for your support of clusters. As everybody knows, they are near and dear to my heart because I got involved first in public service through a cluster of the Maine boat builders and I always say that there is nobody less likely to cluster than the Maine boat builders. But they did because as small businesses, there was something in it for them to be collected together with the University of Maine and composite technology.

We have done clusters all across the country, both through our own SBA program that you see represented here, and in collaboration with a multi-agency activity led by EDA over in Commerce. And what we have found is that clusters have become one of the foundation stones of regional economic development.

They have proven to be very successful, highly cost-effective, and they involve—where they involve small businesses at the core, they are even more successful. Now there is very good academic data supporting this and we are seeing extremely good results on the ground.

I want to make the point that these clusters are very connected to our Small Business Development Centers, our SCORE partners, our district offices, our community colleges, and the entire network on the ground.

Senator PRYOR. Well, I appreciate that and I appreciate your commitment to the clusters because like I said, I agree with the stats you are giving the Committee today. I think it is a great asset for this country, and we need to do more of it.

But also, there is a GAO report which Mr. Shear will discuss on the second panel today, and he says that there are 53 programs that support entrepreneurs at SBA, HUD, USDA, and Commerce. Many of these programs assist disadvantaged areas and small businesses. Now, I realize that SBA and USDA have signed a memorandum of understanding to improve service to small businesses in under-served areas and I think that is great.

But what other recommendations do you have in coordinating or consolidating some of these programs to make sure they are the most cost-effective ways to help small businesses?

Ms. MILLS. Well, I have actually read the GAO report as well and I know that you will hear from Bill later. We very much appreciated being commended for our collaborative efforts. The one that was mentioned was the MOU that we do with the Department of Agriculture to make sure that all of our people are cross-trained in the Department of Agriculture loan programs, for instance, and that all of their offices, which is quite extensive, are then cross-trained and are outposts for the SBA.

So this is working extremely well. Our resource partner programs and all of our entrepreneurial programs across the Administration are actually complementary and additive, and we have had quite a bit of conversation with GAO about this, showing how needs of entrepreneurs at the beginning of their life cycle, at start-up, are very, very different from the need of an entrepreneur who has an established business with 100 people and is looking to expand with exports.

There are small businesses who need a one-to-one mentor and coach at that moment and then a different small business that needs help with a technology problem or a loan guarantee. So we need to be prepared across the Administration to bring that small business into—from whatever door they come in and help them navigate to the program that meets their needs, no matter which agency it is, and that is what our virtual one-stop portal is designed to do, as well as our collaborations like our MOUs.

Senator PRYOR. Thank you.

Chair LANDRIEU. Senator Shaheen.

Senator SHAHEEN. Thank you, Madam Chair, and thank you and Ranking Member Snowe very much for holding the hearing today. And Administrator Mills, thank you so much for your testimony and congratulations. I was very pleased to see the President elevate the SBA Administrator to Cabinet level, and I think it is about time. So I was delighted to see that.

I cannot over-emphasize the importance of SBA programs in supporting small businesses in New Hampshire and helping particularly during the recent recession and during earlier recessions in the early 1990s, helping business get through those difficult times when access to credit was virtually impossible to obtain.

Now having said that, I appreciate that these are difficult fiscal times and that everybody is under constraints to cut budgets, including Congress. But I have to raise the concern, as I did when we talked earlier this week, about the proposed cuts to the Small Business Development Centers, because in a state like New Hampshire, which is small and does not have a lot of urban areas, those SBDCs provide counseling that young businesses really need if they are going to grow.

Last year, New Hampshire's SBDC directly helped 750 businesses. Again, in a large state that does not sound like a lot, but being from Maine, you appreciate that is a lot of businesses and there are a lot of employees who are affected by that number of businesses. In this difficult budget climate, I would hope that we would look at programs like the SBDCs that we know are working in states.

I am particularly concerned about the effects of the cuts, again in a state like New Hampshire, where we do not have the ability to absorb those kinds of cuts in the way that a large state does. And as you know, it has a double impact because the state funding then, also, is affected.

In New Hampshire, just for an example, I live in the seacoast. The impact of the cuts that are being proposed would force the closure of the seacoast center and that is probably a third of the population of New Hampshire. So it is going to have a real impact in our state.

I wonder if you have done any analysis on what that potential impact would be on the delivery of services and the number of businesses that would be affected nationally.

Ms. MILLS. Well, we have an enormous strength in what we call our bone structure, our strong network of over 800 Small Business Development Centers, 110 Women's Business Centers, and more than 12,000 SCORE representatives. In our budget, you see that we have proposed an across-the-board 10 percent cut and we have asked our resource partners to tighten the belt in their operations, as you have just described.

Now, I am very sympathetic coming from a big state with a lot of rural activities—I mean, big state which is actually very small——

Senator SHAHEEN. Geographically, yes, I got that.

Ms. MILLS. In terms of number of people where we have a great reliance on the counseling efforts of folks like our Small Business Development Centers. We have done a number of things and will pledge to you to do a number of more things to work together to make sure that all of our resource partners on the ground and all of our co-resource partners like those Department of Agriculture offices are collaborating more than they ever have before.

This is the watch word. Along with the budget cut, we have brought our resources partners together so that they have more seamless collaboration and may find other ways to provide efficiencies and cost savings while servicing the population that really so much needs them. So we are going to increase efficiency. We are bringing our portals there so that small businesses can navigate more easily. And then come to our counselors with more specific activity.

And we are going to try to make sure that our bone structure does—remains robust, and we believe that we can with this level of activity.

Senator SHAHEEN. Well, I appreciate that and my time is up, but I have to say, I think collaboration is very important, but collaboration that does not include the programs that are making a difference for businesses does not have the same impact. Thank you.

Chair LANDRIEU. Thank you.

Senator Cardin.

Senator CARDIN. Let me thank the Chairman and Ranking Member for this hearing. Administrator Mills, I want to thank you for your service. In the three years that you have been there under the Obama Administration, we have seen dramatic improvement on the SBA as an advocate for small business. I see that in Maryland and I thank you very much for what you have done to help the climate between the SBA and small business as an advocate for programs that can help small business growth.

One of the first meetings that we were at when you were here, I talked about the record as it relates to minority businesses, as it relates to women-owned businesses, and veteran-owned businesses, and that the numbers were not impressive as to the programs being utilized by minorities and women and veteran-owned.

There has been a remarkable improvement. We have been following those numbers over the last three years and improvements have been made. I am going to ask that you supply my office with the information so that we can continue to monitor the progress being made in this area. It requires continued priorities within your office to work with the local offices to make sure that you are advocating on behalf of the priority areas that we expect to be done.

So I compliment you on the progress we made. I just want you to know that we want to continue that moving forward and would ask that you would make that information available to my office. The incentives for small business clearly have helped. We have passed a lot of bills here. I really do compliment our leadership, Senator Landrieu and Snowe, who have really marshaled a lot of very important legislation through.

I want to share the concern that Senator Snowe has raised on the efficiencies of our credit programs to help small business. I think that is a very important point. Many of us raised concerns initially on the program as to whether it would get enough money out at a reasonable cost. Some of us had suggested more direct lending or some other options, at least evaluate how we could get credit out, because it was such an urgent situation.

So I just want you to know that there is, I think, a large number of members of the Senate who are concerned as to whether the credit programs are reaching their intended businesses at the most cost-effective way and there is still a need for that program. So I welcome a way to make that more efficient.

I want to talk about contracting and Government procurement. We have taken an interest in this Committee in this matter. We have included in our legislation the trained procurement officers so they are more sensitive to the requirements of small business to make sure that we prevent the bundling which denies small companies the opportunities to participate; that we look at more direct contracts rather than using subcontracts; that we can improve the opportunities for small businesses.

Can you just go over with me how your budget would allow you to continue to be the advocate for small businesses through the bureaucracy of the Federal Government, which is not always easy, to get more sensitivity to opening up opportunities by procurement officers to reach out for new companies rather than just using their same old connections with larger companies to offer more opportunity for small businesses in our community?

Ms. MILLS. Well, thank you, Senator, for all your support for the Small Business Jobs Act provisions, particularly around contracting which have been so meaningful and helpful.

As you know, small business contracting is the largest Government program for small business. We are responsible to make sure that 23 percent of all Government contracts go to small business. That is about $100 billion a year. And we say that that is no cost to Government because it is actually a win-win. The small businesses get the revenue and Government agencies get access to the most innovative companies and usually the service of the CEO.

We have a number of ways in which we have been able to make substantial progress, and as I said, in part because of some of the legislative pieces of the Small Business Jobs Act on our Government contracting goals. Most importantly, the President has made this a priority and he has asked every agency head to be engaged in this and to make their goals.

And we have quarterly meetings at the White House with all of the sub-agency heads or deputies and they are held accountable for their goals. So as you know, tone from the top helps a great deal in getting the agencies to act.

Then we have done a number of things. I just want to highlight one. Last week I was in New York with IBM and we launched something called Supplier Connection. The private sector, IBM, has garnered together 15 major companies that have over $300 billion of purchasing, procurement, and they have created a portal for small businesses to become part of those supply chains.

We were able to send, that same day, an email, an appropriate eGov email to 50,000 of our registered small business contractors. By the end of two days, 1,000 of them had actually completed all the paperwork to sign up for Supplier Connection and be part of those commercial supply chains.

So this is, we call it, kind of like the common app in colleges. You make one application and then you are qualified for 15 different companies. Small businesses, we do a lot of matchmaking. We do a lot of bringing together agencies and small businesses. But this allows us, for instance, to give even more contracting opportunities to these small business owners.

Senator CARDIN. Thank you. Appreciate that. Thank you, Madam Chair.

Senator SNOWE [presiding]. The Senator from North Carolina, Senator Hagan.

Senator HAGAN. Thank you, Ranking Member Snowe, and thank you for helping to host this hearing today. I just wanted to reiterate what Senator Shaheen said, and I am pleased that the SBA has been elevated to a Cabinet position, so congratulations on that. I know you will add a lot to those discussions.

And I am very pleased at hearing about this common portal for small business. I think that is going to be very important as another avenue for our small businesses to have access to growing their companies and, obviously, hiring more people through that endeavor.

And I also wanted to mention, recently you were quoted in a New York Times article talking about, especially during the height of the recession, about the good work that the North Carolina Small Business Technical Development Centers, the SBTDCs, who were able to really go to the forefront and help people who had been rejected by their bank, that the quote was, Everybody who is rejected come to us and we will work with you on a bank package.

Through the efforts of the counseling at the SBTDCs, they were able to get 70 percent of those businesses credit-worthy, and when they got before the banker, they then had success. So I think that is another win for the good work that our SBA does, and I am certainly pleased with that happening in North Carolina.

I did want to ask a question about our veterans and the Veteran's Initiative. The SBA's budget request contains $7 million in the National Veteran's Entrepreneurial Training Program aimed at the increased number of members of the armed services who we know now are transitioning into civilian life. The Vet Program will be administered through the Department of Defense's Transitional Assistance Program.

And it is certainly no secret to anybody in North Carolina that I consider it the most military-friendly state in the nation and we certainly have a huge number of veterans, and we also have a large number of veterans that are unemployed right now.

Can you tell me more about the Vet Program, what services it provides, the program launch, and where will the program first be implemented and how are those locations being chosen?

Ms. MILLS. The specific Veteran's Entrepreneurship Training Initiative that you are referring to in our budget is designed for working with the military on the returning veterans from Iraq and Afghanistan. And as you know, approximately 250,000 of them are anticipated to return this year. The unemployment rate for returning veterans is 11.1 percent for men and 14.7 percent for women.

We know that veterans over-index in entrepreneurship, so this program is designed to be a module for every exiting vet, military person, through the TAPS Program. They will have first the option—they will each first get a 90-minute module on entrepreneurship. So all returning veterans will do that as part of the TAPS Program.

They can then opt into a two-day program, and if they are interested in pursuing entrepreneurship further, there is an eight-week online program.

Senator SNOWE. Excuse me. The mic is off. Is it working now?

Ms. MILLS. Now it is on, I think. Better? Sorry. So then if they opt into the eight-week program, and after that as they go off and they start their businesses, they will be followed up with our Small Business Development Centers in our on-the-ground ongoing veteran and counseling operations.

The Brigadier was in our offices a few weeks ago and he said something that really struck everyone. He said, These are men and women who are used to making their own decisions. They are out on the battlefields. We are piloting this with Marines. And he said, The Marines are ingrained to make these kinds of decisions, and then they come home and they are in a job where they are told what to do every minute of the day. This does not work for them.

And so, we want to provide a pathway to entrepreneurship for those who are inclined, and we have the capacity and the expertise through our program we have been running with Syracuse University to do that successfully.

Senator HAGAN. So once again, do you know where those locations will be and the actual implementation of it?

Ms. MILLS. Yes. We have four pilot locations that will be the first with Marines. They will then go to every Marine base, and then we have interest, also, from the Army. So we anticipate it expanding.

Senator HAGAN. Thank you, Madam Chairman.

Senator SNOWE. Thank you, Administrator Mills. We appreciate you being here today and we will follow up on a number of the issues that have been raised. But we appreciate your testimony and we certainly appreciate your leadership. Thank you.

Ms. MILLS. Thank you. And I want to say, Senator Snowe, how much the whole small business community has appreciated your leadership on this Committee.

Senator SNOWE. I appreciate that. Thank you.

I will convene the second panel, including the Honorable Peggy Gustafson, the Inspector General of the Small Business Administration, and the Honorable Winslow Sargeant, Chief Counsel for Advocacy at the Small Business Administration.

STATEMENT OF HON. PEGGY GUSTAFSON, INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION

Ms. GUSTAFSON. Senator Snowe, thank you very much for inviting me to testify in front of Senate Small Business today. My name is Peggy Gustafson. I am the Inspector General for the Small Business Administration. My office, as you know, is an independent office within SBA and we conduct and supervise audits, inspections, and investigations relating to SBA programs, and we seek to detect and prevent waste, fraud, and abuse.

I want to talk just briefly about the President's budget request for my office, some things that I would like to talk about what we have done, and some things we would like to do in the future, and then, of course, take any questions.

During fiscal year 2011, my office issued 24 reports containing 136 recommendations for improving SBA operations, reducing fraud and unnecessary losses, and recovering funds. In addition, the work of my Investigations Division led to 69 indictments and 47 convictions of subjects who had defrauded the Federal Government. In all, OIG efforts resulted in more than $120 million in office-wide dollar accomplishments during FY2011.

The operating budget for my office in fiscal year 2011 was $17.3 million, which included a $1 million transfer from the agency's Disaster Loan Program account. So this number represents about a sevenfold return on investment for the Federal Government through the work of my office.

However, even though these figures are reassuring, I am concerned that SBA's financial and operational risk are actually increasing. For example, in the 7(a) and 504 lending programs, as you know, the maximum allowable guarantee per loan has grown from $2 million to $5 million. For manufacturers in the 504 loan program, it has gone up to $5.5 million. And this, of course, dramatically expands the potential exposure to the taxpayer through the guarantees that need to be paid on defaulted loans.

This exposure, combined with a growing portfolio and concerns about limited agency oversight, has increased the possibility of future losses. SBA's payments of guarantees on defaulted loans have increased significantly, from $1 billion in FY07 to $5 billion in FY10, and $3.4 billion in FY11. In addition, SBA's preferential contracting programs continue to be subject to fraud and weak Federal oversight.

Finally, we have concerns that shortcomings in the Agency's IT systems may hinder SBA's ability to effectively manage these programs. As you are aware, the OIG—the President has requested of Congress that my office receive a $3.1 million increase in our budget. These additional resources are necessary to effectively target at early defaulted loans for fraud and lender negligence and to increase the capacity of our investigative personnel.

In particular, we have—the President has requested that these additional resources be used to allow us to establish a dedicated Early Defaulted Loan Review Group to identify loans that default within 18 months, which is an early default loan; enhance our investigative capacity; and enhance the operations of our hotline.

The Early Defaulted Loan Review Group would recommend nonpayment of the guarantee in the appropriate circumstances, would identify trends for operational improvements in the area of loan guarantee payments and lender oversight, and refer suspected fraud to my Investigations Unit.

On average, my Investigations Unit handles 250 criminal and civil fraud investigations per year and obtains multiple indictments and convictions of recoveries of tens of millions of dollars. However, our resources are very limited. For example, over the last four years, the OIG has administratively closed 272 allegations with potential losses estimated at $172 million that may have met prosecutorial thresholds, but could not be further investigated due to a lack of resources.

Also, over the last three years, our Early Fraud Detection Working Group has proactively identified 688 suspect loans with values estimated at over $636 million that contained characteristics typical of problem loans, but due to limited resources, these loans could not be further reviewed for indications of fraud.

In short, much work has been done. I am incredibly proud of the amount of work we do for what is, in general, an extremely small staff given the risk inherent in SBA's programs. And I thank you very much for your support and welcome any questions.

[The prepared statement of Ms. Gustafson follows:]

STATEMENT OF

PEGGY E. GUSTAFSON
INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
U.S. SENATE

MARCH 29, 2012

PEGGY E. GUSTAFSON
INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

INTRODUCTION

Chair Landrieu, Ranking Member Snowe, and distinguished members of the Committee, thank you for giving the Small Business Administration (SBA) Office of Inspector General (OIG) an opportunity to discuss the President's Fiscal Year 2013 Budget Proposal for the OIG and its oversight activities of SBA programs and operations.

The OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect waste, fraud, and abuse in these programs and in SBA operations. Every year, our staff of approximately 110 employees—which includes criminal investigators, auditors, attorneys, and program analysts—conducts criminal investigations, audits, and other reviews, resulting in numerous indictments, convictions and guilty pleas by fraud perpetrators and many recommendations to the agency for improvement of elimination of wasteful or inefficient practices.

During Fiscal Year (FY) 2011, the OIG issued 24 reports containing 136 recommendations for improving SBA operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 69 indictments and 47 convictions of subjects who defrauded the government. In all, OIG efforts resulted in more than $120 million in office-wide dollar accomplishments during FY 2011.

BUDGET REQUEST

The SBA was established to maintain and strengthen the nation's economy by protecting the interests of and assisting small businesses, and by helping families and businesses recover from disasters. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission, including fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. Of note, in recent years, SBA's disbursements for guaranties on defaulted loans have increased significantly. In FY 2007, SBA paid about $1 billion for guaranties on defaulted loans. In FY 2010, such disbursements were almost $5 billion, and in FY 2011, guaranty disbursements totaled $3.4 billion. The OIG has found that defaulted loans, especially those that default in the early stages, are often indicative of problems with the loan origination, to include lender negligence or fraud. Moreover, as a result of statutory changes in 2010, the size of loans that SBA guarantees more than doubled from $2 million to $5 million. With this increase in loan value, the OIG believes that additional fraud schemes will occur with greater loss of taxpayer dollars.

To address these risks, the OIG is requesting a $3.1 million increase over the FY 2012 enacted level. For FY 2013, the OIG requests a total of $20.4 million—a direct appropriation of $19.4 million and $1.0 million to be transferred from the SBA's Disaster Loan program account for work on disaster program issues.

The additional resources are needed by the OIG to effectively target early defaulted loans for fraud and lender negligence and to increase the capacity of our investigative personnel. In particular, the additional resources will allow the OIG to:

- **Establish a dedicated Early Defaulted Loan Review Group to identify problem loans.** When lender negligence is found, this group will recommend non-payment of the guaranty (or recovery if the guaranty is already paid), target the most offending lenders to attain corrective actions, and identify trends for operational improvement by SBA. When suspected fraud is identified, those loans will be investigated. The additional resources will be used to hire auditors, investigators, and analysts and pay for related travel and other expenses.

- **Enhance investigative capacity.** As discussed below, the OIG handles an average of 250 criminal and civil fraud investigations per year and annually obtains multiple indictments and convictions and recoveries of tens of millions of dollars; however, resource constraints have precluded the OIG from initiating or continuing a number of investigations. For example, over the last four years, the OIG has administratively closed 272 allegations—with potential losses estimated at over $172 million—which may have met prosecutorial thresholds but could not be further investigated due to a lack of resources. Also, over the last three years, the OIG proactively identified over 688 suspect loans—with values estimated at over $636 million—that contained characteristics typical of problem loans. Due to limited resources, these loans could not be further reviewed to identify lender deficiencies or indications of fraud. In comparison, as of December 31, 2011, the OIG had 127 open cases related to SBA loan programs (other than disaster loans) with potential dollar losses of about $316 million. Additional investigative support personnel (i.e. non-criminal investigators or financial analysts) will increase investigative capacity and allow more effective utilization of existing investigative resources in a cost-effective manner.

- **Enhance the OIG's Hotline operations.** During FY 2011, 550 Hotline complaints were received by the OIG. Also during FY 2011, 169 complaints were referred to the OIG's Investigations Division and 168 complaints were referred to SBA or other Federal investigative agencies. As of September 30, 2011, 163 complaints were being reviewed by Hotline staff for possible referral or other resolution. The OIG currently has one professional staff member assigned full-time to the Hotline functions. Additional staff resources are required to adequately analyze incoming complaints for possible referral for investigation or other resolution.

The funding requested for FY 2013 also will enable the OIG to continue to address critical areas and issues, including:

- Working an active caseload of about 250 criminal and civil fraud investigations of potential loan and contracting fraud and other wrongdoing. Many of these investigations involve multiple suspects. (Continuing the success of the OIG in prosecuting complex, multimillion dollar fraudulent financial schemes, during FY 2011, OIG investigations resulted in 69 indictments, 47 convictions, and more than $60 million in civil fraud settlements, potential recoveries, fines, and loans/contracts not being approved or being canceled.)

- Conducting audits and reviews of high-risk SBA activities with a focus on systemic, programmatic, and operational vulnerabilities. (During FY 2011, the OIG issued 24 reports with 136 recommendations for improving the Agency's operations, recovering improper payments, and reducing fraud and unnecessary losses in SBA programs.)

- Contracting with an Independent Public Accountant to perform the audit of the SBA's financial statements.

- Providing oversight and monitoring of the SBA's Information Technology (IT) security and application development activities including new systems under development and the Agency's compliance with the Federal Information Security Management Act (FISMA). OIG reports have identified systemic problems with SBA's IT systems.

- Performing required background investigations for SBA employees to achieve a high level of integrity in the Agency's workforce and adjudicating SBA employees and contractors for issuance of Personal Identity Verification (PIV) cards pursuant to Homeland Security Presidential Directive 12 (HSPD-12) background investigation requirements.

- Reviewing proposed revisions to SBA regulations, policies and procedures, and other directives with an emphasis on strengthening internal controls to preclude wasteful, confusing, or poorly-planned initiatives.

- Promoting debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. (During FY 2011, OIG investigations and recommendations contributed to 54 administrative enforcement actions.)

- Conducting name checks and, where appropriate, fingerprint checks on program applicants to prevent known criminals and wrongdoers from participating in SBA programs. (During FY 2011, loans not approved as a result of the OIG's name check program totaled more than $24 million.)

LOAN PROGRAMS

The SBA faces a heightened risk of losses and improper payments due to expedited loan processing initiatives and its considerable reliance on outside financial institutions over which the Agency does not always exercise adequate oversight. This trend has been exacerbated by significant increases in loan volume and loan defaults in recent years. For instance, in FY 2007, SBA paid about $1 billion in loan guaranties, while in the past 2 years SBA has paid over $8 billion in guaranty claims. OIG activities relating to SBA lending in the past several years have been about the same as they were in FY 2007 because resources have remained largely unchanged for the OIG during this time-period.

The Agency's business loan programs include: (1) the 7(a) program, in which the SBA guarantees loans to small businesses made by lenders; and (2) the Section 504 program, in which the SBA guarantees repayment of debentures that are sold by Certified Development Companies (CDCs) to investors to create funds for loans to small businesses. 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 the Agency has delegated most of the credit decisions to lenders originating these loans.

Audits of early defaulted loans and improper payments have noted a number of lender errors in originating loans, whereby the loans do not meet SBA's requirements. In those instances, SBA should not pay the guaranty but frequently does. Furthermore, OIG reviews have detected vulnerabilities in recent changes to the SBA's Standard Operating Procedure for the 7(a) program. These changes include a new provision that allows financing of large amounts of intangible assets, including goodwill, in change-of-ownership transactions where the entire equity injection can be provided in the form of seller take-back financing. The OIG also has identified management challenges relating to the Agency's controls in the guaranty purchase process, oversight of lenders and CDCs, oversight of loan agent participation in the 7(a) program, and improper payments under the 7(a) program.

In addition, numerous OIG criminal investigations have identified fraud by borrowers, loan agents, lenders, and other participants in SBA business loan programs. Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through a variety of techniques, such as submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. The result is a greater chance of financial loss to the Agency and its lenders.

An example of a recent, significant case involving fraud in the lending process is summarized below:

- In November 2011, a federal grand jury indicted Jade Capital & Investments, LLC, and its owners. They were charged with a scheme to fraudulently obtain business loans guaranteed by the SBA, with resulting losses alleged to be over $37 million. The indictment alleges that from February 2005 until October 2011, Joon, Loren, and Nick Park submitted SBA loan applications and supporting documentation to loan originators and underwriters on behalf of their clients. The indictment alleges that the loan packages contained fraudulent personal financial statements and/or monthly bank statements which overstated the net worth and equity injection of the borrowers and falsely enhanced the creditworthiness of the borrowers and their businesses. On February 28, 2012, Nick Park pleaded guilty to conspiracy to commit bank fraud, in connection with the scheme, with resulting losses of at least $1.3 million.

By definition, fraud is a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment. Those that commit fraudulent acts under SBA programs are responsible for their actions; however, we believe there are steps that can be taken to limit opportunities for fraudsters and to increase safeguards to identify fraud. The following proposals would provide SBA OIG and other law enforcement entities additional tools to combat fraud in lending programs:

- *Increasing the Statute of Limitations and Penalties for Fraud in the Disaster Loan and 7(a) Guaranteed Loan Programs.*

  The proposed change would enhance prosecution of fraud in two of SBA's largest programs—the disaster loan program and the 7(a) loan guaranty program. The proposal would: (1) increase criminal penalties and (2) extend the applicable statute of limitations to provide the Government with the same period of time to investigate and prosecute this type of fraud as is provided for other Federal lending fraud. This would be accomplished by changing the definition of "financial institution" in 18 U.S.C. § 20 and the scope of 18 U.S.C. § 1014, as discussed below.

- *Changes to Penalty Provisions in Section 16 of the Small Business Act for Fraud.*

  1. Revise section 16(a) to (1) include fraud by loan packagers and agents who cause a borrower to make a false statement to the Agency, and fraud in the 504 Certified Development Company (CDC) program under the Small Business Investment Act of 1958 (provisions currently only apply to programs under the Small Business Act); and (2) increase criminal fines for fraud under SBA's financial assistance programs to be consistent with 18 U.S.C. § 3571.
  2. Revise section 16(b) to clarify the scope of the section and to increase fines for crimes covered by the section consistent with the fines imposed under Title 18.
  3. Revise language in certain provisions in section 16(c) to cover fraud against lenders participating in SBA financial assistance programs. This clarifies existing language, which only applies to fraud against SBA, and makes the provision more consistent with the increased lending responsibilities that SBA has delegated to lenders. The revision also increases criminal fines to be consistent with Title 18, and updates certain caps in low-dollar fraud cases, which will greatly assist prosecutors in negotiating plea agreements for defendants that cooperate by informing on other wrongdoers.

- *Changes to Section 16 of the Small Business Act to Impose Criminal Penalties for Fraudulently Inducing Fees from an Applicant for SBA Assistance.*

  The proposal would add a new section 16(g) to the Small Business Act, which would criminalize fraudulent statements made by loan brokers to applicants for SBA. This section would address situations where loan brokers and other parties knowingly make fraudulent statements in order to induce small businesses to pay them fees for the preparation of application packages to obtain SBA financial assistance or admission to SBA programs.

- *Changes to Title 18 to Permit Injunctive Relief to Prevent and Establish Criminal Penalties for the Misuse of SBA's Name, Initials, Seal, or Logo.*

  The SBA OIG has received a number of complaints about individuals and companies that falsely claimed to be affiliated with SBA in order to take unfair advantage of small business owners or forge SBA documents to perpetrate fraud. SBA currently lacks any viable remedy to deter this misconduct. Title 18 currently imposes criminal penalties on parties who falsely represent an association with numerous Federal agencies and permit injunctive relief to prevent such misconduct. 18 U.S.C. § 709. SBA, however, is not covered by this section.

- *Authority of SBA to Require Registration of Loan Agents.*

  Based on past reviews and investigations, the SBA OIG believes the development of a registration and tracking system to monitor the participation of agents and packagers in the guaranteed loan program will reduce fraud and enable SBA to better its programs more effectively. The proposed amendment would require SBA to establish a system for loan agent registration. This system would help the SBA identify patterns of fraud for purposes of lender oversight and prosecution of offenders, when appropriate.

The SBA OIG urges the Committee to take up these proposals.

In 2010, the individual amount of 7(a) loans subject to an SBA guaranty was increased from $2 million to $5 million. Also, Section 504 loans were increased from $2 million to $5 million for regular projects and from $4 million to $5.5 million for manufacturing-related projects. These higher loan limits are likely to attract additional attention by criminals and increase the consequences of improper decisions by lenders and the SBA.

Through the Disaster Loan program, the SBA makes direct loans to homeowners and businesses harmed by disasters to fund repair or replacement of damaged property and to businesses to provide needed working capital. This program is vulnerable to fraud and unnecessary losses because: (1) loan transactions are often expedited in order to provide quick relief to disaster victims; (2) lending personnel hired in connection with a disaster declaration may lack sufficient training or experience; and (3) the volume of loans may overwhelm available SBA resources' ability to exercise careful oversight of lending transactions. OIG reviews of the SBA's loan processing activities have disclosed significant problems in making, disbursing, servicing, and liquidating disaster loans, as well as an excessive rate of improper payments. OIG investigations have led to numerous convictions of disaster loan borrowers for making fraudulent statements to obtain loans or misusing loan proceeds. The OIG has identified a management challenge relating to improper payments in the Disaster Loan program.

Under the Small Business Investment Company (SBIC) program, the SBA licenses and funds venture capital firms that provide financial assistance to small businesses. The SBA is at risk for significant losses in this program due to: the deterioration in the economic environment; the decline in asset values of participating securities; and the increasing amount of debenture obligations made by the Agency. Past OIG investigations have identified fraud by certain SBIC managers and others participating in this program.

Previous audits have identified a conflict of interest between the SBA Office of Capital Access (OCA) and the Office of Credit Risk Management (OCRM), which reports to OCA. This is because the OCA's mission, to promote the growth of the loan programs and encourage lenders to join and remain in the 7(a) program, at times conflicts with the mission of the OCRM, which is to oversee lender performance and compliance and initiate corrective actions against lenders, when necessary. As a result, audits have found that the OCRM has not always taken effective actions against certain lenders with significant performance and compliance problems.

Similarly, OIG audits have identified a conflict between the SBA Office of Financial Assistance (OFA), which also reports to OCA and shares a similar mission with OCA to promote the loan program, and the agency centers that conduct "guaranty purchase reviews" (reviews of lender requests for payments of loan guarantees for compliance and negligence issues). The reports have identified a concern as to whether the purchase centers are objectively and effectively making loan guaranty purchase decisions on defaulted loans, and whether the OFA is inappropriately overruling center decisions to deny or limit guaranty payments. As a result, lenders are not always being held accountable for material violations of SBA loan program requirements.

SBA has not taken action to separate the OCRM from the OCA or to put the OCRM in charge of guaranty purchase reviews. Accordingly, we propose an amendment to the Small Business Act to make the OCRM an independent office and to give the OCRM responsibility for overseeing the purchase centers. In addition to eliminating any conflicts of interest, we believe this proposal will expedite the Agency's recovery of improper payments and improve communications between the OCRM and the purchase centers to provide for more effective lender oversight. For example, when the OCRM's analysis shows that a lender is not performing well, loans by this lender should be flagged so that the purchase centers can undertake greater scrutiny when undertaking guaranty purchase reviews. Similarly, if the purchase centers are seeing problems with a number of guaranty purchase requests submitted by a particular lender, that information should be provided to the OCRM so that appropriate lender oversight actions can be taken.

PREFERENTIAL CONTRACTING PROGRAMS

The OIG is concerned about continued fraud and improper activity in the preferential contracting programs, particular the Section 8(a) Business Development, Historically Underutilized Business Zones (HUBZone), and Service-Disabled Veteran-Owned (SDVO) programs. While SBA helps eligible socially and economically disadvantaged 8(a) firms compete in the economy through various business development activities, SBA has delegated its 8(a) contract execution functions to procuring agencies through partnership agreements. These partnership agreements establish the responsibilities between SBA and the procuring agencies for oversight, monitoring, and compliance with procurement laws and regulations governing 8(a) contracts.

Most SBA OIG investigations of procurement fraud involve false statements by those who seek to exploit SBA programs for their personal gain by either: (1) falsely claiming to meet eligibility criteria; or (2) fraudulently using an eligible business as a "pass-through" so that an ineligible company will actually perform the work and receive most of the profits. If ineligible companies improperly profit from preferential contracting through fraud and illegal conduct, legitimate companies necessarily have fewer opportunities to benefit from these programs.

An example of a recent significant case is summarized below:

- On October 13, 2011, Theodoros Hallas pled guilty to one count of conspiracy to commit wire fraud in connection with his role in a conspiracy with Rajesh Kumar Malik to misrepresent their eligibility to obtain set-aside contracts. The investigations of Malik and Hallas led investigators to uncover a bribery, kickback, and money-laundering scheme that resulted in the October 4, 2011 arrests of four Virginia men, including two longtime employees of the U.S. Army Corps of Engineers. These individuals were charged in an indictment that accuses them of taking part in a conspiracy involving more than $20 million in bribes and kickback payments and the planned steering of a $780 million government contract to a favored contractor. To date, several of those arrested have entered guilty pleas. Additionally, the Government has seized for forfeiture or recovery approximately $7.2 million; 16 real properties; 5 luxury cars; and multiple pieces of fine jewelry. Money judgments in favor of the U.S. totaling $1.396 million also are pending court order.

Despite our success in bringing to justice many who have committed fraud in SBA preferential contracting programs, one significant impediment to prosecution stems from the fact that, in many of these cases, there has been no financial loss to the government. Unlike a case where a contractor has falsified invoices for goods or services that were not provided, in many cases of preferential contracting fraud, the government does obtain the particular good or service that it paid for and sought to procure.

Without an associated and definable loss to the government, criminal prosecutors are sometimes reluctant to pursue action against these companies or, if they do pursue them, may only be able to obtain limited sentences. For example, in one HUBZone case in Kentucky that we were successful in getting a prosecutor to accept, we obtained a guilty verdict, but the sentence was only a $1,000 fine and two years probation. This light sentence was based upon Federal sentencing guidelines, which require that, in determining the extent of loss, a credit must be applied for any benefit (i.e., goods and services) that the government obtains as a result of the defendant's wrongdoing.

To enhance criminal prosecution and civil recovery against those that commit fraud in obtaining or performing set-aside contracts, the SBA OIG has developed a legislative proposal to revise section 16(d) of the Small Business Act. Most significantly, this proposal would make explicit that in criminal or civil fraud prosecutions arising under SBA preferential contracting programs, the amount of loss to the government would equal the amount paid on the contract.

In addition, the OIG proposal would:

(1) Impose penalties for false statements not already covered by the section, including fraudulent statements made to obtain a contract set aside for SDVO companies or to obtain grants or cooperative agreements under the Small Business Innovation Research and Small Business Technology Transfer programs;

(2) Enhance prosecution of "pass-through contract" cases by adding a section that would provide that companies that submit invoices or requests for payment on preferential contracts would be deemed to certify that they are performing the required percentage of work on the contracts, and that false certifications would result in criminal penalties;

(3) Add provisions to cover false statements made to get into an SBA program, such as the 8(a) program, or false statements made to SBA in connection with the protest of a proposed contract award; and

(4) Revise the definition in the Small Business Act of a service-disabled veteran to require that a person has been determined by the Department of Veterans Affairs or the Department of Defense as being service disabled (the current definition merely covers someone with a service-connected disability, without requiring that either agency has verified this condition.)

CONCLUSION

The SBA OIG will continue to focus on the most critical risks facing the SBA. Our resources are directed at key SBA programs and operations, to include financial assistance, government contracting and business development, financial management and information technology, disaster assistance, agency management challenges, and security operations. We also will continue to partner with the Agency to ensure that taxpayer and small business interests are protected and served well by reviewing proposed regulations and initiatives, pursuing debarment and administrative enforcement actions, and providing fraud awareness briefings. We value our relationship with this Committee and with the Congress and look forward to working together to address identified risks and the most pressing issues facing the SBA.

Senator SNOWE. Thank you.

Dr. Sargeant.

STATEMENT OF HON. WINSLOW SARGEANT, CHIEF COUNSEL FOR ADVOCACY, UNITED STATES SMALL BUSINESS ADMINISTRATION

Dr. SARGEANT. Ranking Member Snowe, good morning. Thank you for the opportunity to appear today to discuss the Office of Advocacy's budget request for fiscal year 2013. In the interest of time, I will summarize my prepared remarks and ask that my full statement be included in the record.

The Office of Advocacy's budget submission is part of the President's request for SBA and the Government as a whole, and it, accordingly, has the full support of the Administration. I should note, however, that since my testimony is not circulated for comment through OMB or other Federal offices, my views on matters other than the official budget request do not necessarily reflect the position of the Administration or SBA.

Before outlining Advocacy's budget request, I would like to provide an update on the office. First, let me thank the Committee for its support of my nomination by the President to become the sixth confirmed Chief Counsel for Advocacy. As Chief Counsel, my top priority is ensuring that small businesses are considered in the regulatory process. We continue to work with agencies across Government to help them mitigate the potential cost of regulation on small entities.

I am pleased to report that during FY2011, we achieved $11.7 billion in first-year cost savings, $10.7 billion of which will be annually recurring savings. Since I have been Chief Counsel, I have signed 66 public comment letters to 27 agencies on a wide variety of issues. Every comment letter I sent represents an opportunity for the Federal Government to do a better job for small business.

Small business advocacy review panels remain a critical activity in ensuring early participation by small entities in the rural development process. We participated in eight separate panels on EPA rules in FY2011 and began work on another seven planned rules.

I recently met with CFPB Director Richard Cordray to discuss small business concerns about the Bureau's adherence to CFPB–RFA. He assured me that the CFPB is committed to the CFPB–RFA process. Advocacy has been working closely with the Agency as it began to issue new rules. We also have provided RFA training to CFPB staff.

Advocacy continues to provide RFA compliance training to other regulatory agencies as well. Last year, 109 regulatory and policy officials received RFA training, and so far this year, 107 officials have been trained.

To help us understand small business concerns, we hosted 32 small business roundtables in FY2011, and we have another 14—have held another 14 so far this year. Advocacy also maintains a strong focus on economic research. We published 25 research or data products in FY2011, and another 12 so far this year.

On the subject of today's hearing, I would like to take this opportunity to thank Congress for providing the full $9.12 million that President Obama requested for Advocacy in FY2012. For FY2013, the Office of Advocacy requests $8.9 million for its direct expenses. In recognition of the need for Federal agencies to reduce their budget requests during these current economic conditions, this request represents a reduction from FY2012 enacted level.

This amount includes $7.65 million for personnel costs and $800,000 for economic research.

The remaining balance of $450,000 covers all other direct expenses.

Advocacy's new separate account is fully operational, and we have statutory line-item funding that is not commingled with other SBA funding.

I have signed a Memorandum of Understanding with SBA in which the agency has agreed to provide Advocacy with operational support, without charge to our appropriation account.

I would like to conclude by citing a benchmark that demonstrates what a good investment Advocacy is for America's taxpayers. At a cost of $8.3 million in FY2011, Advocacy achieved $11.7 billion in first-year cost savings. This means that taxpayers paid only $710 for Advocacy's expenses to realize $1 million in new regulatory cost savings.

Thank you again for your support for the Office of Advocacy. I look forward to continuing to work with you on issues of importance to small business and would be happy to answer any questions.

[The prepared statement of Dr. Sargeant follows:]

SBA Office of Advocacy
www.sba.gov/advocacy

Advocacy: the voice of small business in government

Testimony of

The Honorable Winslow Sargeant, Ph.D.
Chief Counsel for Advocacy
U.S. Small Business Administration Office of Advocacy

United States Senate
Committee on Small Business and Entrepreneurship

Date:	March 29, 2012
Time:	10 am
Location:	Room 428A Russell Senate Office Building Washington, D.C.
Topic:	Office of Advocacy Fiscal Year 2013 Budget

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. The Chief Counsel for Advocacy, who is appointed by the President and confirmed by the U.S. Senate, directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Issues are identified through economic research, policy analyses, and small business outreach. The Chief Counsel's efforts are supported by offices in Washington, D.C., and by Regional Advocates. For more information about the Office of Advocacy, visit ***http://www.sba.gov/advocacy****, or call (202) 205-6533.*

Chair Landrieu, Ranking Member Snowe, and Members of the Committee, good morning. Thank you for the opportunity to appear before the Committee today to discuss the Office of Advocacy's budget request for Fiscal Year 2013. That submission is part of the President's request for the U.S. Small Business Administration (SBA) and the government as a whole, and it accordingly has the full support of the administration. I should note, however, that since my testimony is not circulated for comment through the Office of Management and Budget (OMB) or other federal offices, my views on matters other than the official budget request do not necessarily reflect the position of the administration or the SBA.

Advocacy Activity Update

Before outlining Advocacy's budget request for FY 2013, I would like to provide an update on the office's activity. First, let me thank the Committee for its support of my nomination by the President to become the sixth confirmed Chief Counsel for Advocacy. The Senate's vote on November 18, 2011, to confirm my nomination was a reaffirmation of the strong support that the Congress historically has shown for Advocacy and its work.

As Chief Counsel, my top priority remains ensuring that small businesses are considered in the regulatory process. We continue to work with agencies across government to help them mitigate the potential costs of regulation on small entities. I am pleased to report that during FY 2011, Advocacy achieved **$11.7 billion** in first-year cost savings, $10.7 billion of which will also be annually recurring savings. These savings resulted from final actions on eight separate rules originating in six departments and agencies: the Departments of Labor, Education, Energy, and Justice, the Environmental Protection Agency (EPA), and the Centers for Medicare and Medicaid Services. Additional information is detailed in Advocacy's annual report on agency compliance with the Regulatory Flexibility Act for FY 2011, which we submitted to you last month. Although our annual regulatory cost savings can vary considerably from year to year, our five-year average for one-time cost savings is an impressive **$9.4 billion**.

Since I have been Chief Counsel, I have signed 66 public comment letters to 27 departments and agencies on a wide variety of issues, in addition to one memorandum to all agencies on RFA issues generally.

Small Business Advocacy Review Panels remain a critical activity in ensuring early participation by small entities in the rule development process. In FY 2011, Advocacy participated in eight panels convened on EPA rules, and did preliminary work on another seven panels planned by EPA. On March 6, we participated in the first panel convened by the Consumer Financial Protection Bureau (CFPB).

Advocacy continues to provide Regulatory Flexibility Act (RFA) compliance training to regulatory agencies pursuant to Executive Order 13272. In FY 2011, 189 regulatory and policy officials received RFA training, and 107 more officials have been trained so far this fiscal year. Advocacy believes that better-trained regulatory and policy staff develop smarter rules that have reduced impacts on small entities. We also believe that rules fully compliant with the RFA result in better compliance by the regulated community and reduced litigation.

We continue to work closely with our colleagues in OMB's Office of Information and Regulatory Affairs to ensure that small business concerns are heard early in the regulatory development process, in furtherance of the RFA and Executive Order 13272.

Advocacy hosted 32 small business roundtables in FY 2011, and we have had another 14 so far this year. These roundtables have explored issues as diverse as taxes and pensions, government contracting, work visas, telecommunications, OSHA and EPA rules, financial regulation, aviation and transportation rules, and veteran entrepreneurship.

Our economic research team published 25 research or data products in FY 2011, including new editions of three annual reports: *The Small Business Economy,* our state economic profiles, and Advocacy's annual small business bank lending study. So far this year, Advocacy has released another 11 research or data products. There are a variety of contract research projects underway on specialized issues, and these will be released as they become available.

Our information team keeps in touch with concerned stakeholders through Advocacy's website, print, email, and social media. Our monthly newsletter, *The Small Business Advocate,* reaches 8,000 print subscribers and 28,000 electronic subscribers. Specialized email Listservs reach thousands more, including 15,000 research users, 13,000 regulatory users, and 15,000 press users. We also provide frequent information updates via Facebook, Twitter, and Advocacy's blog, The Small Business Watchdog.

In January 2011, President Obama signed Executive Order 13563, which among other provisions, directed departments and agencies throughout government to review existing significant regulations and consider how best to promote retrospective analysis of rules that may be outmoded, ineffective, insufficient, or excessively burdensome, and to modify, streamline, expand, or repeal them in accordance with what has been learned. Advocacy has been involved in this initiative before and since its publication, and is currently working with OMB and regulatory agencies to identify regulations where regulatory cost savings can be achieved.

Since my appointment in August 2010, I have had the honor of visiting 25 states to hear directly from small businesses and their representatives. Also, Advocacy's 10 regional advocates have visited all 50 states to listen to stakeholders.

Advocacy's New Separate Appropriations Account Legislation

As you know, the 2010 Small Business Jobs Act (Public Law 111-240), included a provision establishing in the Treasury a new separate account for Advocacy and a requirement that SBA continue to provide operating support for our office. Advocacy now has statutory line-item funding that is not commingled with other SBA funding. The enactment of the Advocacy budgetary provisions underscores our independence and indicates that Congress intends to clearly identify the resources available to Advocacy, provide a basis for performance measurement, and promote certainty in Advocacy budgets. I would also like to take this opportunity to thank the Congress for providing the full $9.12 million that President Obama requested for Advocacy in FY 2012.

We have been working with OMB and SBA's Office of the Chief Financial Officer to coordinate the many modifications in SBA's budget presentation made necessary by Advocacy's new separate account, both in terms of future funding requests and past performance reporting. The administration's FY 2013 budget request, and in particular SBA's congressional budget justification document, reflect these changes.

Accordingly, Advocacy's FY 2013 Congressional budget justification and FY 2011 annual performance report are presented separately in a new appendix following SBA's own presentation this year, as is done with the Office of the Inspector General. This format will improve the transparency of Advocacy operations and costs, as well as provide a clearer basis for performance measurement. Advocacy's new appropriations account and budget appendix have also resulted in revised strategic goals, performance objectives, and performance metrics. I will return to these revisions shortly, but I would first like to address Advocacy's FY 2013 budget request.

Advocacy's FY 2013 Budget Request

In recognition of the need for federal agencies to reduce their budget requests during the current economic conditions, the Office of Advocacy requests $8.9 million for its direct expenses in FY 2013, a $220,000 reduction from its FY 2012 enacted level.

Dollars in Millions	**FY 2011 Enacted Level ***	**FY 2012 Enacted Level**	**FY 2013 Request**
New Budget Authority	9.12	9.12	8.90

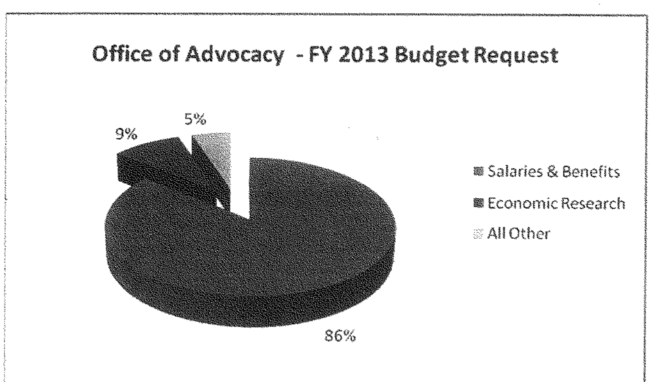
* Prior to FY 2012, Advocacy was included in SBA's salary & expense account under Executive Direction. The FY 2011 enacted level represents Advocacy's share of this account. Advocacy's separate account is effective in FY 2012.

This amount includes $7.65 million for personnel costs. Advocacy's professional staff is our most important asset, and it is appropriate that the largest share of our budget goes to human resources.

The FY 2013 budget request also will support new economic research program funding of $800,000. This includes funds for data acquisition, specialized contract research, support of custom data tabulations at other agencies, and related costs.

The balance of our request, $450,000, covers all other direct expenses, including travel, training, office supplies, subscriptions to legal and economic research resources, and other miscellaneous expenses directly attributable to Advocacy.

Together, staffing and research account for 95 percent of Advocacy's total request, and any significant reduction from the amounts requested would necessarily come from one or both of these areas.



Additional Support for Advocacy in the FY 2013 Budget Request

In addition to a separate account for Advocacy, the Small Business Jobs Act also included a provision that SBA was to supply Advocacy with operational support such as office space, rent and utilities, telecommunications, equipment and maintenance, etc. Advocacy has signed a Memorandum of Understanding (MOU) with SBA in which the agency has agreed to provide all of the items contemplated in the new law without charge to Advocacy's appropriation account, including centralized indirect expenses shared with other SBA offices (such as procurement and payroll services). Although the support package for Advocacy that SBA is now providing will not be charged to our appropriation account, the costs for these services and other indirect overhead will appear elsewhere in SBA's budget. Since these overhead costs do not affect our direct costs, and because they reflect SBA accounting conventions, Advocacy is not directly involved in their calculation.

Revisions to Strategic Goals and Performance Metrics

The Government Performance and Results Act of 1993 (GPRA), as amended by the GPRA Modernization Act of 2010 (Public Law 111-352), requires federal agencies to establish strategic goals and more detailed performance objectives to meet these goals. Programs and offices within agencies have performance indicators to measure progress in meeting these goals and objectives, and final performance measurements are reported publicly each year. In the past, Advocacy's performance indicators have supported an SBA objective to "foster a small business-friendly environment by reducing burdens on small business and improving collection of relevant small business data." With the establishment of our own separate appropriations account and budget appendix, however, Advocacy will now have its own strategic goals and metrics.

In preparation for this change, I asked Advocacy's management team to do a thorough review of our previous strategic goals, objectives, and performance indicators, which were put in place before my appointment. As a result of that review, we are planning two new strategic goals for Advocacy that closely align with the office's primary statutory missions: regulatory advocacy and economic research. As Chief Counsel for Advocacy, I can assure you that these revisions will not change in any way our commitment to provide small businesses with an effective voice in the regulatory process and to produce high-quality research and data products. A detailed discussion of the revisions to Advocacy's goals and performance metrics is included in the Advocacy appendix to SBA's congressional budget justification document, along with our annual performance report for FY 2011. Here are the two strategic goals that we have adopted going forward:

- *Advocacy Strategic Goal 1:* To be an independent voice for small businesses inside the government and to assist federal agencies in the development of regulations and policies that minimize burdens on small entities in order to support their start-up, development and growth.
- *Advocacy Strategic Goal 2:* To develop and disseminate research and data on small businesses and the role that they play in the economy, including the availability of credit, the effects of regulations and taxation, the role of firms owned by women, minority and veteran entrepreneurs, innovation, and factors that encourage or inhibit small business start-up, development and growth.

New Innovation Initiative

Before I close, I would like to say a few words about a new initiative that Advocacy is planning for FY 2013 if our budget request is approved. This effort will focus on the specific needs and concerns faced by high-growth companies and entrepreneurs. These innovative businesses face different challenges in starting, maintaining, and growing their operations than do other types of small businesses. They often pioneer technologies, business models, and practices that are not yet addressed by the federal government's existing regulations and processes.

Using Advocacy's ten regional advocates, supported by the office's attorneys and economists in Washington, Advocacy will conduct outreach to engage innovators, entrepreneurs, investors, and industry representatives to hear first-hand what impediments exist for innovative small businesses in high-growth sectors. Advocacy will work with policymakers in the Congress, the White House, and federal agencies regarding concerns heard in its outreach efforts, and it will work with the relevant agencies to facilitate the adoption of regulations and administrative practices that take into account the needs of high-growth small businesses. Advocacy's FY 2013 request includes funding for one new position, whose primary duties will be to coordinate the new initiative.

Conclusion

At last year's budget hearing, I closed my remarks by citing an important performance metric that the entire Advocacy team takes pride in: the annual calculation of the cost per $1 million in regulatory savings attributable to Advocacy interventions. This number is the total of one-time regulatory cost savings achieved in a given year, divided by the total cost of Advocacy for that year. This metric can vary considerably because we do not control what final cost-saving actions agencies take, or when they take them. On average during the last five years, each $1,501 spent on Advocacy has yielded $1 million in regulatory cost savings. Not bad. In FY 2011, however, the taxpayers paid only $710 for Advocacy expenses to realize $1 million in new regulatory cost savings. As I said last year, I think that this makes a pretty good case that your investment in Advocacy yields a impressive return.

In conclusion, let me again thank the Committee and its staff for the tremendous support you have given the Office of Advocacy for so many years. It helps us immeasurably in our work to know that we have this support. I look forward to continuing to work with you on issues of importance to small business. I would be happy to answer any questions.

Chair LANDRIEU [presiding]. Thank you very much and I apologize for the vote, but that is why members are coming and going. Senator Snowe will rejoin us in a minute.

Let me ask you, Dr. Sargeant, the President's budget has asked for an increase of $220,000 in the Advocacy's budget. At the same time, you have got heavy responsibilities.

Do you feel—and I know that your budget does not go through OMB so that you are clear to talk about what deficiencies might be, and I have got a specific question about the Leahy-Smith America Invents Act, which was the patent change, but overall, can you just hit one or two highlights about some of the shortcomings in your budget that you think might keep you from doing the jobs that we have asked you and required you to do by law and Congressional directive?

Dr. SARGEANT. Chair Landrieu, the FY2013 budget adequately funds the Office of Advocacy, of course, but we could always do more with more.

Chair LANDRIEU. Do you have the money to fund the study that we required that you do to the follow-up of the Leahy-Smith America Invents Act? And if you do, where are you getting that money from? It is, I think, the cost of about $250,000 to conduct such a study.

Dr. SARGEANT. Chair Landrieu, the America Invents Act mandated that the Office of Advocacy would do a patent study and that was for the FY2012 budget. The funds were not set aside to do that study, and so we have been talking with the appropriate—talking with you and your staff on ways that we could do that study.

Chair LANDRIEU. Okay. But I am confused because Congress has specifically directed you—as you know, we put an amendment to that bill because America was the last country in the world to be operating off of a First to Invent system and we changed to a First Inventor to File system.

There was a very serious concern by small businesses that under a First to File, they would be pushed out of the opportunity for patents, having less back office, less ability to use that system. And so, we specifically required a study to be done, and my question is, do you have the money or not to conduct this study?

Dr. SARGEANT. Currently, Chair Landrieu, we do not have funds set aside.

Chair LANDRIEU. Then I would say that your budget is not adequate to carry out the responsibilities that you have been asked to do.

Dr. SARGEANT. Well, we will continue to discuss with you and your staff on ways that we can do the study. I strongly—for small businesses and entrepreneurs to succeed, they need to have access to a patent system that works, and so that is why——

Chair LANDRIEU. Right. And no one is going to know if it works or not if your office does not, because there really is not any other office that I can think of, and maybe the Ranking Member can, that is responsible to report to Congress how new rules and regulations are affecting small business in America. We are not going to get that from the Agriculture Department. We are not going to get that necessarily from the Commerce Department. It is your job. And this is a big change in the law.

I want you to know that I am going to stay very focused on this. We are hoping that the study will show that all of our concerns were for naught, that this new system is absolutely helping small businesses, and that their response is overwhelmingly positive. But we will not know that unless this study is conducted.

For the 28 million small businesses out there, many of them, I will admit, are not filing new patents every day, but maybe millions of them are. Maybe not 28. Hundreds of thousands of them are. That is something we need to know. So I want to follow up with you on that.

Let me get to the Inspector General. I am concerned, as Senator Snowe is, about the subsidy rates. I think our Director explained that they were from loans previously made that are defaulting and that is what is driving this default rate up. But is there something that you want to point out to me that are your top one or two concerns with the operations of the SBA? I believe we have good leadership. Just like Senator Snowe, I do believe the agency is making a lot of progress in cleaning up some things, streamlining programs.

But what would be the one or two things that you would like to highlight to me in our short time in terms of quality and effectiveness of the programming that we should really look at that we might be able, with the right kind of twist or new tools, to make significant improvement?

Ms. GUSTAFSON. Thank you, Senator Landrieu. I think the—and I will narrow it even to one, in the interest of time. I think the one area I would like to highlight right now would be the area of improper payments, for several reasons.

One, the area of improper payments in these programs has been a concern in our office for some time, and our office just issued, pursuant to the Improper Payments Act, the latest review of how the agency is doing on improper payments.

As you know, Senators, an improper payment is not necessarily always a payment that should not have been made. Sometimes it is an internal control issue or a documentation issue. But there is an aspect to improper payments that does deal with, for example in SBA programs, loan guarantees that perhaps should not have been made or there should be a repair made.

And so, you will recall that three years ago or so I was here talking about an improper payment rate that we had classified in the double digits on guarantees, on loan guarantees that are paid. Our latest audit followed the Improper Payments Improvement Act, so it actually covered more areas as well.

We continue to have some kind of fundamental disagreements with the agency on whether they are doing enough in improper payments, capturing those improper payments, doing them—having—reporting the correct improper payment rate, and whether they have a plan in place, both to reduce improper payments and to perhaps seek through recovery.

And so, that is something. This report is very recent. It is, I think, two weeks old. This is something that I think the agency—that I would say I think the agency does need to focus on.

Chair LANDRIEU. Okay. Well, I want to hone down here just a little bit because one of the serious issues right now getting capital into the hands of small business is the tension between the regulators of banks coming down so hard on banks, making them stay in their box, stay in their lanes. You know, if the law says two cents and they say 2.1, it is a violation.

And the banks, I am reported, across the board, are having a very difficult time doing the lending that they would like to do because their regulators are breathing down their necks. Now, you are not technically a regulator, but you are an overseer. So I need to really understand what you are attempting to oversee.

And anything that we want to identify as fraud or recklessness is one thing we have to get rid of. But if it is because the agency did not dot an I or cross a T on a loan form, I am not interested in that and I do not want that recorded as improper payments.

So I need you to be a little bit clearer with me, if you can on the record, about what your problems really are. Because the last thing that I am going to do is sit here as the Chair of this Committee and allow the sort of overseer and regulator of the SBA do the same thing that some of the regulators are doing to small business banks, and you will absolutely shut down all lending in the country, which just about happened.

Ms. GUSTAFSON. Right.

Chair LANDRIEU. And we have got to find a way through this, because the fact is there is great need and thirst for capital and for loans out there. Contrary to what the Chamber of Commerce continues to say, there are wonderful businesses out there that need these loans and need these guarantees.

Their mayors are running economic development that are desperate to build their cities back up in Michigan, Ohio, Louisiana, and I am sure in Maine. There are governors, Democrats and Republicans, looking for creative ways to get capital out to businesses that are trying to expand. So let us be a little bit clearer. Give me an example of an improper payment.

Ms. GUSTAFSON. Thank you for your question, Senator Landrieu, because I do think that sometimes there is a strong misapprehension and an undue fear over what the improper payment rate means, what we are talking about, and what the practical effect is. And again, this is something that I experienced even the first year that I was here when we had done an improper payment review.

Basically, nobody—neither the agency nor the IG ever goes back and faults a lender, and we certainly never seek recovery for a dotting of the I or a crossing of the T. I think that is just really a fundamental misapprehension. Basically, as you know, all that we are talking about is making sure that the programs are working as they are intended to do, which is to say that there is a guarantee that will be paid, except in extraordinary circumstances where something that was supposed to have been done just truly was not done and it was so material that the guarantee should not have been——

Chair LANDRIEU. So you are talking about material things that you are concerned about——

Ms. GUSTAFSON. Absolutely.

Chair LANDRIEU [continuing]. In terms of improperly—and is that rate, in your mind—now, you have only been there, what, a year?

Ms. GUSTAFSON. Two and a half years.

Chair LANDRIEU. Two and a half years. So is that rate going up, is it staying flat, is it going down?

Ms. GUSTAFSON. I actually think that there has been—and we are—we remain working with the agency to reach the final rate. As you may recall, we agreed to go back and do another deep dive this year as we did improper payments on 7(a) and on disaster.

We are closer this year than we were before. I would say, even though it is not completely final, it has gone down. In 2008 when I came in, I want to say the improper payment rate was double digit and now it is, at least the preliminary rate that we have reported, is less. So it is going down.

Chair LANDRIEU. So it is moving in the right direction?

Ms. GUSTAFSON. Yes.

Chair LANDRIEU. So when you basically showed up, which was two and a half years ago, and you were looking back at things that had been done, it was alarming. And it is moving in the right direction, but it is still concerning. Is that a fair——

Ms. GUSTAFSON. That—that is fair. But yeah, and there is no question that the agency and the IG are closer than—closer, not in a friend way, but closer in where we are seeing it than we were before which is definitely progress.

Chair LANDRIEU. Okay. I know that Senator Snowe has other questions to you all, but in light of time, I am wondering if we could allow the next panel to come forward so they can give their testimony? Can you all stay because when Senator Snowe comes back, we are going to extend this hearing to 12:10, and I know she is going to have some questions for you all. Okay?

Ms. GUSTAFSON. Thank you.

Dr. SARGEANT. Thank you, yes.

Chair LANDRIEU. Okay, thank you. Our first witness on the third panel—and thank you all for being flexible—we have Tony Wilkinson, President and CEO of the National Association of Government Guaranteed Lenders. It is the only national trade association that represents the 7(a) lending industry. We are looking forward to hearing your testimony this morning.

Next, Bill Shear, Director of Financial Markets and Community Investments at the GAO. As we all know, GAO is an independent, non-partisan agency that ensures Government programs are running efficiently and meeting their objectives.

Christopher Hurn is joining us today from Mercantile Capital Corporation where he serves as CEO and Cofounder. They specialize in SBA 504 loans.

And then Ridgely Evers, Managing Partner of Tapit Partners and a Member of the Board of SCORE, one of my favorite organizations. It is a non-profit association authorized by Congress that provides one-on-one small business counseling, and in my view, has done a remarkable job over a long period in many parts of our country.

Before I start, I want to put in a letter to the record from the Chamber of Commerce. I just had that. I would like my staff to find it. I had it before I left. It was a letter from the Chamber—here it is. Bruce Josten supporting the subsidy rate for these programs. And the Chamber is a strong advocate for the kind of new partnerships that we are strengthening between the SBA. Without objection, I will have that put into the record.

[The letter follows:]

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

R. BRUCE JOSTEN
EXECUTIVE VICE PRESIDENT
GOVERNMENT AFFAIRS

1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/463-5310

March 28, 2012

The Honorable Mary L. Landrieu
Chairwoman
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, DC 20510

The Honorable Olympia J. Snowe
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Chairwoman Landrieu and Ranking Member Snowe:

As a longstanding advocate for increasing access to capital for small businesses, the U.S. Chamber of Commerce strongly supports the President's FY 2013 budget request of $235.6 million for the Small Business Administration (SBA) 7(a) guaranteed lending program and $113 million for the SBA 504 guaranteed lending program. If enacted, this funding could be leveraged to support $16 billion and $6 billion in small business lending to those respective programs.

Policies that foster and encourage robust entrepreneurial activity and small business ownership provide the basis for economic prosperity important to the long-term vitality and success of the nation. Many of our small business members indicate that one major obstacle to entry or expansion of a small business is the availability and access to capital for small enterprises. Two important sources of funding, the SBA 7(a) and 504 guaranteed loan programs, play an important and vital role in providing an alternative means of obtaining capital for many small business owners where funding has not been available through conventional lending methods.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organzations of every size, sector and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees. On behalf of these small employers, we thank you for your leadership on access to capital for small business and look forward to working with you to pass the President's FY 2013 budget request for these two important SBA lending programs.

Sincerely,

R. Bruce Josten

R. Bruce Josten

Cc: The Senate Committee on Small Business and Entrepreneurship

Chair LANDRIEU. Mr. Wilkinson, why do you not begin—and please limit your opening statement to less than three minutes so we will have time for questions.

STATEMENT OF TONY WILKINSON, PRESIDENT, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

Mr. WILKINSON. All right. Thank you, Chair Landrieu. Appreciate the opportunity to be here today. I would ask that my written record be submitted—written testimony be submitted for the record.

The National Association of Development Companies has also submitted testimony for the record. They represent more than 95 percent of all the SBA 504 financings that are done, and as the trade association representing the 504 industry, we would respectfully request that their statement also be included in the hearing record.

[The prepared statement of the National Association of Development Companies follows:]

National Association of
Development Companies

March 29, 2012

Honorable Mary Landrieu
Chair
Committee on Small Business
U. S. Senate
SR-428A Russell SOB
Washington, D. C. 20510

Honorable Olympia Snowe
Ranking Member
Committee on Small Business
U. S. Senate
SR-428A Russell SOB
Washington, D. C. 20510

Dear Senators:

At the Committee's request, attached is a statement with comments on the Administration's proposed FY 2013 budget and other critical 504 program issues.

The National Association of Development Companies (NADCO) represents over 250 Certified Development Companies (CDCs) that last year provided over 95% of all SBA 504 loans to small businesses. Together, our members and our lender partners were responsible for nearly $10 billion in job-creating economic development projects last year.

We request that the Committee consider both our concerns about 504 program needs, as well as our support for both the subsidy request and the program level by the Administration.

We would be pleased to respond to any questions regarding our statement from the Committee, and look forward to future discussions with you about the 504 program.

Sincerely,

Christopher L. Crawford
President & CEO

CC: NADCO Membership

6764 Old McLean Village Drive ▪ McLean, VA 22101 ▪ 703.748.2575 ▪ (fax) 703.748.2582 ▪ www.nadco.org

Certified Development Companies: Growing Small Businesses, Jobs, Communities

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

FY 2013 Proposed Budget

Submitted to the

COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP

UNITED STATES SENATE

by

Christopher L. Crawford
President & CEO

McLean, VA.

March 29, 2012

The National Association of Development Companies (NADCO) is pleased to provide this statement to the Senate Committee on Small Business regarding the President's budget proposal for FY 2013 and other enhancements for the SBA 504 loan guarantee program to promote business expansion and job creation.

NADCO is a professional membership organization representing the Certified Development Companies (CDCs) responsible for the delivery of the SBA 504 program. We represent more than 250 CDCs with over 800 offices, and 250 affiliate members. Our CDC members provided more than 95% of all SBA 504 financing to small businesses during 2011, as well as many other small business financial assistance programs and job creation services in their communities.

CDCs are for the most part not-for-profit intermediaries with a statutory mission to provide community and economic development through the delivery of the 504 loan program and other economic development programs and services customized to the needs of their respective communities. Our goal is to help small businesses create and retain jobs through their growth.

NADCO would like to thank Chairperson Mary Landrieu, Ranking Member Olympia Snowe, and the Committee, for continued support of small business and small business lending in America, and for your focus on the critical need for access to capital in order to restore growth to our economy. We would like to especially thank you for passage of the Jobs Act in 2009, which has provided access to long term capital for many more thousands of small businesses. This bill contained many program enhancements our industry has long advocated, and its impact has been substantial for our economy.

NADCO's member CDCs work closely with SBA and our lending partners (generally banks and federal credit unions) to deliver what is certainly the largest and most successful federal economic development finance program in history (since 1986, over two million jobs have been created via the authorization of over $65 billion in 504 loans that leveraged over $100 billion in private investment).

SBA 504: New Capital Equals New Jobs

The "grease" that gets the small business jobs engine going is capital: both short term and long term funding to pay for business plant and store expansions and for inventory, raw materials, and labor costs. Without funding, businesses cannot grow. With funding, businesses can finance their growth and hire new workers. The fact that the unemployment and under-employment rates continue to be higher than historical averages is an indicator that many small businesses are not yet growing at historically high rates.

Banks are slowly returning to lending long term to cover fixed assets, land and building purchases, and plant and store expansions. But as this Committee has heard many times, private lending is not back where it was when small businesses were adding millions of new jobs in the early to mid-2000s. The argument today is: which comes first --- long term lending or new borrower growth? Truly, a chicken or egg situation!

But there ARE still growing small businesses in every city, county, and state, and many of them cannot get the funds they desperately need to buy machinery, build new stores and plants, or simply acquire that foreclosed, inexpensive building down the street that would mean twenty new jobs and a new assembly line.

The banks are still reeling from losses, delinquencies, and even regulator "over-aggressiveness". They are moving slowly and conservatively back into the lending markets. Small businesses must move faster than the banks will go in order to get new capital.

This leads us to the true value of 504: Banks take in short term deposits and are very reluctant to lend long term. 504 mitigates much of the risk, and convinces banks to lend to small businesses. Our lending track record in three minor and one major recession proves it. The very structure of the 504 program, as a second mortgage lender, induces both community and large regional banks to make the loans to small businesses that they might not make while still recovering from loan losses in this recession.

504 is a "leverage" program, and the only one operated by the federal government. With a 504 second mortgage, a bank gets a first mortgage with only a 50% loan to value ratio. This loan structure convinces a bank to make a loan due to its secure nature; i.e., it's a much lower risk than a regular loan that could go bad and cause a substantial loss. With the 504 second mortgage behind the bank's loan, it's likely the bank will obtain its funds in the event of a default. First mortgage lenders even pay for this benefit in the form of a 0.5% fee to SBA for their loans. They know the value of the 504, and the protection it provides to them.

Thus, 504 is the only program that the federal government can use to convince banks to return to more risky long term, fixed rate small business lending, other than simply providing a full loan guarantee for a bank. Instead, historically operating at zero subsidy, 504 has cost both the borrower and the government far less than other guarantee programs, as the fees have supported any losses due to defaults. The icing on the cake for a small business is that, with a lower interest rate and lower program fees, the borrower pays less for debt, and uses his savings to expand even more. A 504 loan is simply a less risky and lower cost loan for a borrower.

504 is a program designed by Congress and the SBA to leverage small businesses back into job-creating growth, and the economy out of a recession. No other federal program comes close to 504's job creation track record at no cost to the taxpayer!

Value to the Government:

Not only does the 504 program create tens of thousands of new jobs for borrowers; it provides enormous benefits for many other small businesses and for governments at all levels. An economic impact study was commissioned by NADCO in 2007-08 and completed by California State University and Applied Development Economics, Inc. to quantify these benefits.

This study sampled a portion of the entire 504 portfolio by obtaining financial and actual job creation/ retention data from almost 1,000 small businesses and CDCs. Some of its results include:

- 77% of borrowers reported increased revenues, on average going from $3.2 million to $4.8 million per year for their business.
- During the 2-year study period (2003 – 2005), these loans generated 54,000 new jobs and additional payroll of $4.6 billion.
- This borrower business growth provided an economic multiplier impact of an additional 66,000 new private sector jobs and a further $4.5 billion in new salaries.
- This business growth increased federal taxes revenues by $1.75 billion and state and local taxes by $2.2 billion PER YEAR.
- SBA spent $46 million operating the 504 program. With increased federal revenue of over $37 per $1.00 spent on program costs, and $57 in state and local revenues for each $1.00, the 504 program returns about $94 to government for each $1.00 of program cost.

FY 2013 Budget: The Need to Cover Short Term Program Losses

Unfortunately, the user fees charged to borrowers, banks, and CDCs have been insufficient to offset extraordinary loan losses during this recession (for only the last two Federal fiscal years). For the FY 2013 budget, the Administration requested about $113 million to help supplement program fee collections for 504. At the authorization ceiling of $6.0 billion that will enable about $14 billion in 504 capital projects, the cost of this funding request is extraordinarily low.

Each dollar of this appropriation will fund a twenty year loan amount to a small business of $200. The cost is 0.5% to the government for a loan of 20 years. Put another way, with the 504 program creating one job for each $65,000 lent, that well-paying new job will cost taxpayers about $325, or $16 per year over the loan's 20-year span.

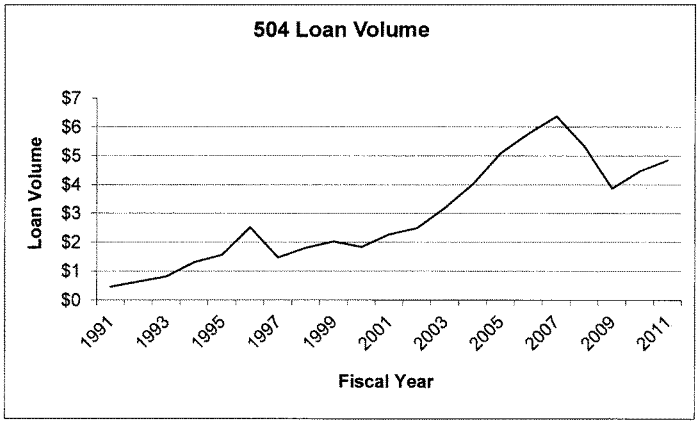
Due to the low cost of job creation under 504 and the high impact in this economy, NADCO supports the Administration's budget request for continued borrower fee relief through an appropriation, and the 504 authorization ceiling of $6.0 billion.

The Effects of the Recession on SBA 504 Lending:

LOAN DEMAND: 504 financing provides long term fixed rate financing to companies that are established and ready to implement a program of substantial growth. Our borrowers are those small firms that are successfully growing their companies, expanding their businesses, locations and plants, and hiring new workers. These firms have historically created an average of one new job for every $65,000 in 504 loan amount (historical job creation average exceeds this requirement).

For business financing in general, a combination of the recession (resulting in lower sales) and the credit crisis (resulting in a near-collapse of credit availability from banks) have severely restricted access to capital for small businesses for all types of uses, including commercial real estate acquisition and plant expansion. The downturn in sales and business revenues has resulted in declining net income and weaker financial statements making it harder for companies in every business sector to qualify for the financing they need to again fulfill their role as America's traditional job creation engine.

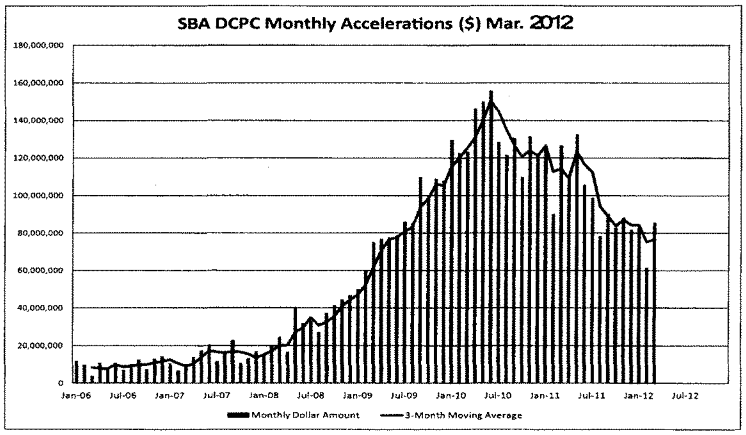
The chart below reveals how devastating this recession was for small business borrowing using the 504 program. In 2007, we provided almost $6.4 billion in long term financing. By 2009, demand had dropped by 40% to under $4.0 billion, as consumer spending dried up, businesses saw their revenue drop, and they stopped expanding and creating new jobs.



However, since 2009 as the economy has stabilized and began to grow, 504 demand has increased by over 25% from its low point. Small businesses have seen their customers returning and are frequently taking advantage of lower cost real estate and construction costs to again consider expanding their stores, offices, and plants. The result is not only existing jobs being saved and layoffs declining, but new jobs are being added by our borrowers.

LOAN DEFAULTS: At the same time that loan demand was falling beginning in 2008, many of our small business borrowers were unable to weather the loss of revenues as customers slowed their spending. The result was an extraordinary and unprecedented increase in 504 loan defaults. This is shown in the chart below, which illustrates the rapid uptick in defaults from about 2% (our historical average) to more than 9% at the peak in early 2010. Actual loan defaults have lagged the recession's impact, as SBA and CDCs attempted to work with delinquent borrowers by deferring loan payments and even restructuring loans to decrease the payment impact. Only when all efforts fail is the final result for many borrowers to default and accept lender foreclosure on their business assets securing their loan.

Here also is there some good news, with 504 defaults rapidly declining from 9% to about 5% over the past two years. Additionally, 504 loan delinquencies, a precursor to potential defaults, are falling rapidly to less than 3% of the portfolio. These statistics reveal that the 30,000 504 borrowers are coming out of this recession, able to keep their loans current, and beginning to restore the stability of their businesses. This bodes well for both these firms, and the millions of jobs they've created. The results will be increasing employment, improving sales, and stabilization of sales, property, income, and employment taxes for governments at all levels.



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SBA's 504 Subsidy Model:

NADCO continues to have concerns about the SBA's econometric program subsidy model, as we have stated in previous years. For FY 2013, SBA actually forecasts an INCREASE in the default factor, going from 12.43% for FY 2012 up to 13.65%. As the above chart reveals, the actual default rate is falling rapidly from its high point in 2010. Further, the subsidy model does not reflect the marked improvement in the credit quality of the average 504 borrower today. By 2013, this will be even stronger. Clearly, the current subsidy model no longer reflects the key impact factors of the economy, lender's tightened loan policies, and true borrower financial condition for the 504 loan portfolio. This impact of this "disconnect" will result in massive excess fees paid by borrowers, first mortgage lenders and CDCs to the Treasury for FY 2013.

NADCO disagrees with the basic assumptions by SBA in using the recent loan pool performance as a predictor for the 2013 loan pool performance. While several of the pools of 2007 to 2009 loans have seen default rates approaching 20%, this performance was during an historic recession. Further, the loans that defaulted were brand new business expansions with the recession occurring immediately, leaving many borrowers with much lower business revenues. It is highly unlikely we will see another such recession immediately after the FY 2013 loan cohort is authorized (2014 to 2016). Thus, the circumstances that created these recent extraordinary defaults are not likely to occur again for the FY2013 loans.

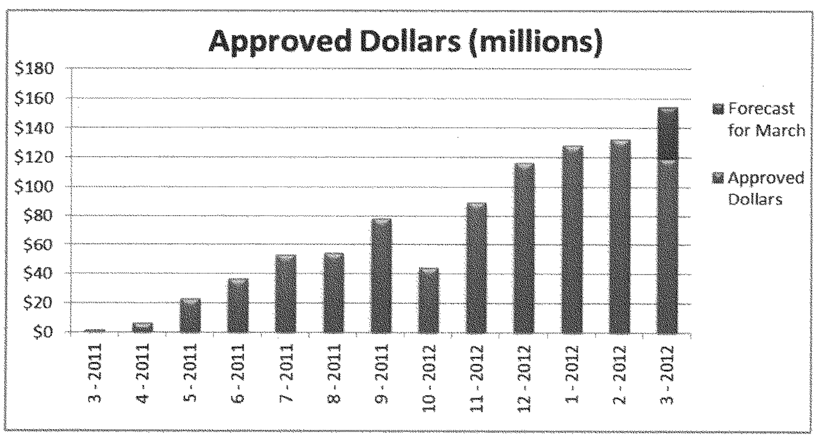
We further question SBA's econometric assumptions leading to the unusual prediction of near-record defaults for a 2013 loan pool of high quality small business borrowers at a time when banks and CDCs have developed fairly tight credit standards for the 504 program. We believe this model has resulted in too-high estimates and therefore fees that will overcharge borrowers.

We strongly encourage SBA to re-evaluate their econometric subsidy model and account for improving credit standards and the impact of early loan defaults caused by the recession.

504 Temporary Refinancing Program:

In late 2009, Congress passed with this Committee's support the Jobs Act, which enabled the 504 program to provide on a temporary basis the ability for a small business to refinance existing fixed asset debt that was maturing or had onerous terms such as an extraordinarily high interest rate. Recently, SBA issued revised implementing regulations that significantly improved the benefits and eligibility requirements of this program. This refinancing program is by law a "zero subsidy" program, and the user fees fully pay for any program losses. SBA has recently reiterated to House committee staff and to NADCO that the refinancing program has been operating at zero subsidy.

Unfortunately, the program expires in September 2012, based on current law. Provided below are the recent months of refinancing authorizations by SBA, which demonstrate that under the new regulations, program demand is rapidly growing. This demonstrates that there continues to be a gap in demand for refinancing versus what many commercial banks are willing to do for their small business customers. This appears to be especially true for those served by many community banks that may be under regulator pressure to move small business and real estate loans off their balance sheets.

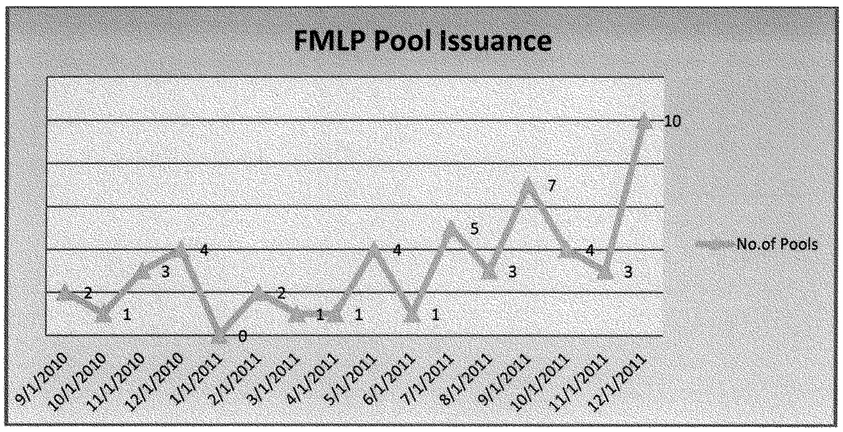


Based on recent demand growth, NADCO strongly supports extension of this refinancing program for another year. We urge the Committee to continue to seek a legislative vehicle for this extension.

504 First Mortgage Lien Pool Guarantee Program:

The FMLP program was designed to stimulate the re-emergence of a healthy secondary market for 504 First Mortgage Lenders. This secondary market at its peak consisted of numerous buyers who in 2006 purchased an estimated $2 billion in SBA 504 First Mortgages. Contrast that to 2011 when approximately $170 million in 504 first mortgages were purchased by the two existing whole loan buyers – Zions and Morgan Stanley.

The FMLP program has actually more than doubled this secondary market activity in its first full year of operation with almost $250 million in loan pools. The following graph shows the increasing volume activity based on the number of pools issued.



If extended, the FMLP program is likely to eclipse the $1 billion per year mark. The Program has increased the number of lenders participating in the 504 program providing small businesses more options and greater access to capital resulting in increased job creation and community investment. It has allowed lenders to serve all real estate property types and industries, preserve capital and offer longer term fixed rate loans to their customers. Furthermore the program is beneficial to the overall credit quality of the 504 program as originating lenders have more "skin in the game" since they must retain 15% of the loan rather than selling the entire loan, and the buyer has to keep 5% unguaranteed as well.

NADCO recommends that the FMLP Program be extended beyond the September 2012 date to at least the time when the original allocation of $3 billion has been exhausted. A permanent extension based on annual allocations for this zero subsidy program should also be considered.

504 Program Oversight:

Unlike the multiple federal regulators that oversee the commercial banking industry, the 504 Certified Development Companies licensed by the SBA are regulated solely by this agency. SBA is responsible for auditing the loan portfolios of loans originated and serviced by CDCs, their financial statements, overall portfolio performance, internal operations, and staffing resources.

In the early 2000s, the Office of Credit Risk Management (OCRM) was established within the Office of Capital Access, with the purpose of reviewing the overall risk of the 504 portfolio for SBA, and developing a loan forecasting system to project the performance of loans and CDC portfolios. To accomplish this, OCRM contracted with outside firms, including Dunn & Bradstreet, to build a sophisticated loan performance forecasting model using D & B databases.

Additionally, OCRM contracted with a small accounting firm to create multiple field review teams that would go to CDC offices each year (for those with larger portfolios) and report on their compliance with SBA loan documentation and operational requirements. This contract has been moved to a new vendor due to performance issues.

Recently, SBA has begun implementing additional changes to enhance the oversight of both the 504 and 7(a) loan programs, starting with a new and experienced department manager.

Our industry recognizes that new SBA managers, staff and contractors are being brought in to reorganize, revitalize and significantly improve lender oversight. We are strongly supportive of a single, quantitative, accurate auditing and performance measurement system being operated by SBA. We do not support a continuation of the existing duplicative systems today that often provide completely opposite measures of CDC portfolio performance. We recommend that SBA settle on one system that consistently and accurately evaluates CDCs, as well as all third party loan originators such as loan brokers.

NADCO also urges SBA to further improve its field reviews and audits to ensure that all lenders, both CDCs and banks, as well as loan packagers and brokers, adhere to appropriate marketing, underwriting, packaging, closing and servicing regulations and policies, as well as the fees paid by borrowers for third party services.

Given the impact of the recent recession on loan portfolio losses, it is imperative that every lender, servicer, packager and broker focus on lending standards appropriate for a zero-subsidy program. We encourage the Committee to continue to review the OCRM restructuring efforts, and provide input and oversight to assist SBA managers as they complete this critical function.

CONCLUSIONS:

For many years, 504 has been an extremely cost effective capital access program for thousands of growing small businesses that are the core job creators of the American economy. The program was in such demand that for several years its growth rate exceeded 20% each year. As the country slid into a deep recession in 2008, many small business owners decided they could not take a risk of continued growth of their firms, so they stopped borrowing all but the necessary working capital to maintain their existing operations.

It is the sense of both SBA and NADCO that many small businesses are beginning to experience an economic turnaround. We can see it in the calls that CDCs are getting about 504. Our "pipeline" of loan projects is coming back. Certainly the stimulus and Jobs Act enacted by Congress is working, beginning a steady upturn of the American business cycle and the economy is beginning to move forward.

It is imperative that the SBA 504 program be available to provide long term, low cost capital for small businesses seeking to expand or acquire fixed assets and new buildings. Through 504, thousands of borrowers will be able to expand their business operations and hire more employees.

We note that more than 130,000 loan authorizations for over $65 billion in 504 loans and the resulting $125 billion in new small business expansion projects have resulted in more than two million new and retained jobs for America. We look forward to working with Congress to continue improvements to the program to build upon this track record of job creation.

Thank you for your support of the 504 program, and of small businesses across America.

NAGGL is supportive, also, of the Administration's overall budget request as it relates to the Agency's loan programs. We particularly appreciate the fact that it does not propose increased costs for loan program participants for either borrowers or lenders, and instead provides appropriations to offset any cost not covered by current program fee structures.

This provision is critically important because for the last several years, SBA loans have been almost the only source of term financing for small businesses. For that reason, continued Congressional support of the SBA loan programs is essential.

Many small business trade groups continue to tell us that access to credit remains a top issue for their membership. These small business trades have found that while many of their members are ready and willing to take on additional risk to grow their businesses and create jobs, accessing the capital necessary to support those efforts has proven to be a daunting task during these tough economic times.

Fortunately, the SBA and its loan programs have been there to fill the capital void for small businesses. The importance of SBA lending to small businesses is clearly evidenced by the demand for the agency's loan programs. According to SBA statistics, between its 7(a) and 504 loan programs in just the last two years, SBA has helped to deliver approximately $42 billion into the hands of small business owners, and when you add the dollar value of the private sector first mortgage portion of 504 loans, that total exceeds $50 billion.

There is also data to support the fact that SBA, in conjunction with its private sector lenders, is the primary source of all long-term small business lending. For FDIC statistics accumulated from bank call reports, as of December 31st, 2011, banks reported approximately $600 billion in outstanding small business loans.

Of this, the vast majority of these loans, or approximately 76 percent, have maturities of three years or less with a significant majority of this tranche having maturities of less than one year. The remaining 24 percent, or about $150 billion, have maturities of three years or longer.

As of December 31st, the same date, the outstanding balance of SBA 7(a) loans, 504 loans, and the private sector first mortgage portion of 504 loans totaled approximately $110 billion, with the average maturity of an SBA loan in excess of ten years.

So comparing SBA term loans with bank call report term loans, you can see why it has been said that SBA loans account for as much as 70 percent of all long-term loans made to small businesses. And as a point of reference, prior to the recent recession, this ratio averaged approximately 40 percent. Given the dramatic rise in the importance of SBA lending, it is easy to see why many small business trade groups refer to SBA lending as the only game in town. And with that, I will conclude my verbal testimony.

[The prepared statement of Mr. Wilkinson follows:]

NATIONAL ASSOCIATION
OF GOVERNMENT GUARANTEED LENDERS

Testimony before the U.S. Senate Committee

on Small Business and Entrepreneurship

March 29, 2012

Submitted by

Anthony (Tony) Wilkinson

President & Chief Executive Officer

National Association of Government Guaranteed Lenders

Anthony (Tony) Wilkinson, President & Chief Executive Officer, National Association of Government Guaranteed Lenders (NAGGL)

Members of the Senate Small Business and Entrepreneurship Committee, my name is Tony Wilkinson, and I am the president and CEO of the National Association of Government Guaranteed Lenders (NAGGL). I have had the privilege of serving NAGGL members in this position for the past 25 years.

NAGGL is a trade association with over 700 institutional members that participate in various capacities in the SBA loan programs all across the country. Our members are dedicated to providing critical capital to our nation's small businesses so that these businesses can grow, create jobs, and contribute to our nation's economic vitality. NAGGL is proud to say that our lender members are responsible for over 80% of the annual SBA 7(a) loan volume, as well as a most of the private sector lender portions of 504 transactions.

Thank you for inviting me to testify on the Administration's Fiscal Year 2013 budget request for the Small Business Administration. NAGGL is supportive of the Administration's overall budget request as it relates to the agency's loan programs. We particularly appreciate the fact that it does not propose increased costs for loan program participants—either borrowers or lenders, and instead provides appropriations to offset any loan costs not covered by current program fee structures. This provision is critically important because for the last several years, SBA loans have been almost the only source of term financing for small businesses. For that reason continued congressional support of the SBA loan programs is essential.

Many small business trade groups continue to tell us that access to credit remains a top issue for their membership. These small business trades have found that while many of their members are ready and willing to take on additional risk to grow their businesses and create jobs, accessing the capital necessary to support those efforts has proven to be a daunting task during these difficult economic times. To fully understand why, we need to look at what has happened and is happening today in the banking industry.

One of the results of the "great recession" is that many banks saw the quality of their assets (loans) deteriorate significantly, leading to widespread losses. At the same time, federal banking regulators were aggressively raising bank capital requirements and substantially increasing FDIC insurance assessments.

So how does a financial institution make its regulatory capital ratios comply with new requirements when it cannot easily raise additional capital? The institution shrinks its assets (loans) so that the remaining capital it has becomes a greater percentage of its total assets. And that is exactly what the commercial banking industry has done. According to FDIC data, lending to small businesses has contracted by about $100 billion since 2008.

The result has been a perfect storm of circumstances that together serve to stifle banks' abilities to make credit available to small businesses; fewer earning assets because of problem loans, increased capital requirements, and higher expenses due to additional FDIC insurance assessments.

This combination of capital constraints and problem assets coupled with an enhanced awareness of the need for prudent lending in the current economic environment has caused many lenders to be extremely selective with their small business lending. Loan underwriting standards are significantly higher today than they were just a few short years ago. The result is that many creditworthy small businesses have difficulty accessing conventional loans.

So how are many banks meeting the needs of their small business customers? Many lenders have turned to, or returned to, the SBA loan programs, and in particular, the 7(a) loan program which is SBA's largest and oldest loan program. The SBA reports that over 1200 lenders have returned to SBA lending in the last several years, a circumstance that in the words of SBA Administrator Karen Mills, "means we are getting more access and more opportunity for more small businesses in more communities"—something that matters to each of you and to the entrepreneurs in each of your states.

The importance of SBA lending to small businesses is clearly evidenced by the demand for the agency's loan programs. According to SBA statistics, between its 7(a) and 504 loan programs, in just the last two years, SBA has helped to deliver approximately $42 billion into the hands of small business owners. When you add the dollar value of the private sector first mortgage portion of 504 loans, that loan total exceeds a staggering $50 billion.

There is also data to support the fact that SBA, in conjunction with its private sector lenders, is the primary source of all long-term small business lending. From FDIC statistics accumulated from bank CALL Reports as of December 31, 2011, banks reported approximately $600 billion in outstanding small business loans. Of this total the vast majority of these loans (approximately 76%) have loan maturities of three years or less, with a significant majority of this tranche having maturities less than one year. The remaining 24% (approximately $150 billion) have maturities of three years or longer.

As of December 31, 2011, the outstanding balance of SBA 7(a) loans, 504 loans, and the private sector first mortgage portion of 504 loans totaled approximately $110 billion. The average maturity of an SBA loan is in excess of 10 years. Comparing SBA term loans with bank CALL report term loans, you can see why it has been said that SBA loans account for as much as 70% of all long term loans made to small businesses. As a point of reference, prior to the "great recession" this ratio averaged approximately 40%. Given the dramatic rise in the importance of SBA lending it is also easy to see why many small business trade groups refer to SBA lending as 'the only game in town'.

FY 2013 Budget Request

The Administration's budget request provides $349 million in continued credit subsidy for SBA's 7(a) and 504 loan programs. This funding is sufficient to support $16 billion in 7(a) loans and $6 billion in 504 loans. NAGGL strongly supports this portion of the Administration's budget request for FY 2013.

What we learned from the last two years is that when program participants' costs were reduced by the Recovery Act and the Jobs Act, loan volume increased dramatically in both SBA loan programs. Likewise, when the program costs returned to original levels, loan volumes declined. In fact, loan volume in the 7(a) program has declined so much that we are now running a year-to-date FY 2012 loan volume that is 46% behind FY 2011 and almost 10% behind FY 2010. Since SBA is currently charging the statutory maximum 7(a) fee, without the credit subsidy requested by the Administration, legislation would have to be passed to further raise costs on program participants—with a likely result of further decline in small business lending and fewer opportunities for small business starts and growth.

In the past NAGGL has supported a $0 credit subsidy appropriation, but now is simply not the time to further exacerbate the problems of small businesses by raising program fees. And now is not the time to risk harming the only source of long term financing for small businesses.

In discussing the Administration's budget request, it is critically important that we not get so lost in the gross numbers that we forget what those numbers represent. The real success of SBA's loan programs is measured in terms of its individual loans and the small businesses that they support in every town and city and state across the country. It is an established fact that the health of the small business sector is a key component of the overall health of the economy. SBA, through its lending and other programs, helps to ensure that the small business sector has access to the resources that it needs to thrive.

As we talk about how the SBA loan programs are helping the economy rebound one small business at a time, I would like to briefly mention one very timely initiative, VetFran. Since the initiative was founded by the International Franchise Association (IFA), VetFran has assisted more than 2100 veterans to become franchise business owners. NAGGL's members recognize how important it is for returning veterans to find meaningful opportunities consistent with their leadership skills. Therefore, we are proud to support this strategic initiative by helping to provide access to necessary credit to assist those American heroes who choose to transition out of the military into entrepreneurship.

In closing, on behalf of 7(a) and 504 lenders, I want to thank this Committee, the Congress and SBA for the steps that they have taken to revitalize SBA's loan programs and to make them more accessible and cost-effective to small business borrowers and lenders. Over the past several years, working together on a nonpartisan basis, SBA and Congress have crafted a number of excellent short- and long-term solutions aimed at jump-starting lending to small businesses. The success of those solutions is readily illustrated by the dramatic increase in SBA lending that occurred subsequent to enactment of the Recovery and Small Business Jobs Acts. As evidenced by the charts on page 5, the results are clear – unprecedented lending levels in the SBA 7(a) and 504 programs realized in fiscal year 2011, and strong lending continues in the current fiscal year.

The public-private partnership that exists in SBA's lending programs has been and continues to be a shining example of what can be achieved when the federal government and the private sector — both lenders and other organizations, like IFA that support small business development — work together. We know that small businesses lead the way in creating new jobs, and we know that having a vibrant small business segment in our economy is vital to continuing the fragile economic recovery that we are seeing today. We also know that keeping SBA's 7(a) and 504 loan programs available to meet the capital needs of the tens of thousands of creditworthy small businesses that have nowhere else to turn is equally vital. These loan programs merit continued bipartisan support in the Congress. Thank you.

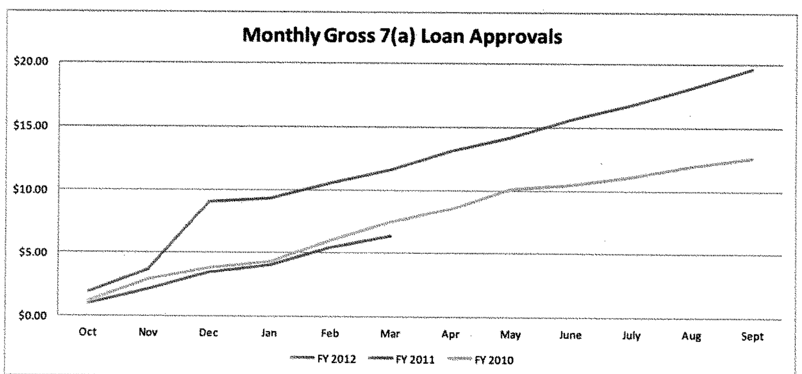
Gross SBA Loan Approval Volume
FY 2012 compared to FY 2011 and FY 2010
As of March 23

In thousands of dollars (Amounts rounded to the nearest $1,000)

	FY 2010		FY 2011		FY 2012		% Change FY12 & FY 11		% Change FY12 & FY10	
	#	$	#	$	#	$	#	$	#	$
7(a) loans	**27,550**	**7,146,914**	**27,875**	**11,551,238**	**19,782**	**6,382,157**	**-29.0**	**-44.7**	**-28.2**	**-10.7**
Minority	5,165	1,618,618	5772	2,865,865	4,298	1,594,509	-25.5	-44.4	-16.38	-1.5
Women	5,044	1,012,078	4,596	1,345,764	3,247	794,869	-29.4	-40.9	-35.6	-21.5
Startups	7,277	1,821,670	7,856	2,671,895	6,072	1,709,481	-22.7	-36.0	-16.6	-6.2
Veterans	1,918	352,476	1,824	571,035	1,080	280,759	-40.8	-50.8	-43.7	-20.3
504 Loans	3,767	2,186,509	3,801	2,247,036	3,817	2,585,803	0.4	15.1	1.3	18.3

Month-End FY 2010 – FY 2011 – FY 2012*

(*Approximate: as of 3/23/2012)



Chair LANDRIEU. Thank you. I am going to take that information that you gave and make the appropriate charts and give a speech on the Floor of the Senate about this. I think it is a really important fact to get out there, that while banks are making small business loans and the volume is greater than the SBA, their loans are short-term in nature and they are not helping small businesses.

Their rates may be higher, their terms are draconian, in some cases, requiring not only the shortness of the term and the rate that businesses are paying, but the guarantees that the owners have to give, literally their first child has to be guaranteed, their house, their automobile, and their wife's dowery. It has gotten to be just awful, and I do not think people understand this.

Why we are not expanding our programs exponentially I do not know. I mean, we are pushing them out as far as we can. But thank you for giving us those numbers.

Mr. WILKINSON. Yes, ma'am.

Chair LANDRIEU. Bill.

STATEMENT OF BILL SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SHEAR. Thank you. Chair Landrieu, Ranking Member Snowe, and members of the Committee, I am pleased to be here this morning to discuss our work on overlap, fragmentation, and potential duplication in economic development programs.

Most recently, in February 2012, we reported on the existence of overlap and fragmentation among those Federal economic development programs that support entrepreneurs. Specifically, we have focused our analysis on 53 of the 80 economic development programs at Agriculture, Commerce, HUD, and SBA that fund entrepreneurial assistance because these are the 53 programs that appear to overlap the most.

Specifically, this testimony discusses our work to date on, first, the extent of overlap and fragmentation among these programs, and second, the availability of meaningful performance information on these 53 programs. I will also include information on actions taken to improve collaboration in response to previous GAO reports. This summer, we plan to issue our final report on economic development programs.

In summary, based on our work to date, we have found that programs that support entrepreneurs overlap based not only on their shared purpose of serving entrepreneurs, but also on the type of assistance they offer. The programs generally can be grouped according to at least one of three types of assistance, technical assistance, financial assistance, and Government contracts.

Some of the overlap and fragmentation among these 53 programs is found among programs that assist, for example, disadvantaged businesses. In addition, many of these economic development programs also operate in both urban and rural areas.

While most of the 53 programs have reasonable performance measures and tend to meet their annual performance goals, few evaluation studies have been completed and little evaluation information exists that assesses the program's effectiveness. Studies of

SBA's three major counseling and training programs are among such studies that do look at effectiveness.

With respect to collaborative practices, in April 2010, USDA and SBA signed a memorandum of understanding. The MOU defined and articulated a common outcome focused on improving service delivery to small businesses in under-served rural areas.

While we have received information from USDA about collaborative actions its field offices have taken, we have not received comparable information from SBA indicating progress in this area. However, SBA has provided sound evidence indicating that it has taken actions to coordinate services provided by its Small Business Development Center, Women's Business Center, and SCORE resource partners.

Chair Landrieu and Ranking Member Snowe, this concludes my prepared statement. I would be happy to answer any questions.

[The prepared statement of Mr. Shear follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business and Entrepreneurship, U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, March 29, 2012

ENTREPRENEURIAL ASSISTANCE

Efficiency and Effectiveness of Fragmented Programs Are Unclear

Statement of William B. Shear, Director
Financial Markets and Community Investment

GAO
Accountability * Integrity * Reliability

GAO-12-601T

Chair Landrieu, Ranking Member Snowe, and Members of the Committee:

I am pleased to be here today to discuss our work on overlap, fragmentation, and potential duplication in economic development programs. Over the past year, we have issued a series of reports on potential duplication among federal economic development programs.[1] Most recently in February 2012 we reported new information on the existence of overlap and fragmentation among those federal economic development programs that support entrepreneurs.[2] Specifically, we focused our analysis on 53 of the 80 economic development programs at the Departments of Commerce (Commerce), Housing and Urban Development (HUD), Agriculture (USDA), and the Small Business Administration (SBA) that fund entrepreneurial assistance because these programs appear to overlap the most.[3] According to agency officials, these programs, which typically fund a variety of activities in addition to supporting entrepreneurs, spent an estimated $2.6 billion in enacted appropriations on economic development efforts in fiscal year 2010.[4]

[1]GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington D.C.: Mar. 1, 2011) and *Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear*, GAO-11-477R (Washington, D.C.: May 19, 2011).

[2]GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington D.C.: Feb. 28, 2012).

[3]The number of programs administered by Commerce, HUD, SBA, and USDA that were identified in GAO-11-477R as supporting entrepreneurial efforts decreased from 54 to 53 because Commerce merged its Minority Business Opportunity Center program and Minority Business Enterprise Center program into one program that is now called Minority Business Center. In addition, two of the original Commerce programs identified in our March and May 2011 reports—Community Trade Adjustment Assistance and Research and Evaluation—have been replaced with two other Commerce programs—Trade Adjustment Assistance for Firms and the Economic Development-Support for Planning Organizations—because one of the original programs had temporary funding and the other original program was misclassified as an economic development program. The two new Commerce programs that have been added should have been included in the March and May 2011 reports, according to Commerce officials.

[4]We excluded the portion of the Community Development Block Grant funding that HUD reported is not used to support economic development. The total enacted appropriations for these 53 programs was about $5.6 billion for fiscal year 2010.

Economic development programs, if effective, can develop and expand businesses, and thus contribute to the nation's economic growth. However, the ways that these programs are administered could lead to inefficient delivery of services to entrepreneurs, such as requiring recipients to fill out applications to multiple agencies with varying program requirements, and could compromise the government's ability to effectively provide the needed service and meet the shared goals of the programs.

My testimony today is based on information on these 53 programs that is discussed in our recent February 2012 report. Specifically, this testimony discusses our work to date on (1) the extent of overlap and fragmentation among these programs and (2) the availability of meaningful performance information on these 53 programs. Because we have ongoing work that will be issued later this year, we also provide an overview of the nature of our ongoing work.

In summary, based on our work to date, we have found that

- Programs that support entrepreneurs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. Much of the overlap and fragmentation among these 53 programs is concentrated among programs that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses. In addition, many of these economic development programs also operate in both urban and rural areas.[5]
- While most (45) of the 53 economic development programs that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals, few evaluation studies have been completed and little evaluative information exists that assesses the programs' effectiveness.

As we continue our ongoing work, we are conducting additional analyses of these 53 programs to determine, among other things, (1) what support do federal economic development programs provide to entrepreneurs and

[5]While the definition of rural can vary among programs, USDA's typically defines it as covering areas with population limits ranging from less than 2,500 to 50,000.

to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness.

For our February 2012 report, which this testimony is based on, we focused our analysis on the 53 economic development programs at Commerce, HUD, USDA, and SBA that fund entrepreneurial assistance because these programs appeared to overlap the most. We examined the extent to which the federal government's efforts to support entrepreneurs overlap among these numerous, fragmented programs by examining their missions, goals, services provided, and targeted beneficiaries and areas. We also collected information on performance measures that the agencies collect to track the performance of each of the 53 programs, and any evaluation studies conducted or commissioned by the agencies evaluating the effectiveness of these programs. This process included meeting with agency officials to corroborate the publicly available information. We also determined the reasonableness of the performance measures by assessing each measure against agency strategic goals and specific program missions to determine the extent to which they are aligned. The work on which this statement is based was performed from June 2011 through February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Programs that Support Entrepreneurs Overlap and Are Fragmented

Based on a review of the missions and other related program information for these 53 programs, we determined that these programs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. The programs generally can be grouped according to at least one of three types of assistance that address different entrepreneurial needs: help obtaining (1) technical assistance, (2) financial assistance, and (3) government contracts. Many of the programs can provide more than one type of assistance, and most focus on technical and/or financial assistance:[6]

- *Technical assistance*: Thirty-six programs distributed across the four agencies provide technical assistance, including business training and counseling and research and development support.
- *Financial assistance*: Thirty-three programs distributed across the four agencies support entrepreneurs through financial assistance in the form of grants and loans.
- *Government contracting assistance*: Seven programs distributed between two of the four agencies support entrepreneurs by helping them qualify for federal procurement opportunities.

Table 1 illustrates overlap among programs that provide entrepreneurial assistance in terms of the type of assistance they provide. For example, SBA administers 10 of the 36 programs distributed across the four agencies that provide technical assistance, including business training and counseling and research and development support. The agency also administers 10 of the 33 programs distributed across the four agencies that support entrepreneurs through financial assistance in the form of grants and loans, and five of the seven programs that provide government contracting assistance to entrepreneurs. Appendix I lists the programs GAO identified that may have similar or overlapping objectives, provide similar services or be fragmented across government missions. Overlap and fragmentation may not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

[6]SBA administers the two programs that solely provide entrepreneurs with assistance in obtaining government contracts: the HUBZone program, which supports small businesses located in economically distressed areas, and the Procurement Assistance to Small Businesses program, which serves small businesses located in any area.

Table 1: 53 Programs That Support Entrepreneurs, by Type of Assistance, as of September 30, 2011[a]

	HUD	SBA	USDA	Commerce	Total[b]
Technical assistance only	2	6	5	4	**17**
Financial assistance only	3	5	5		**13**
Technical and financial assistance only	7	3	4	2	**16**
Government contracting assistance only		2			**2**
Technical and government contracting only		1			**1**
Financial and government contracting only		2			**2**
Technical, financial, and government contracting assistance				2	**2**
Total	**12**	**19**	**14**	**8**	**53**

Source: GAO analysis of information provided by Commerce, HUD, USDA, and SBA.

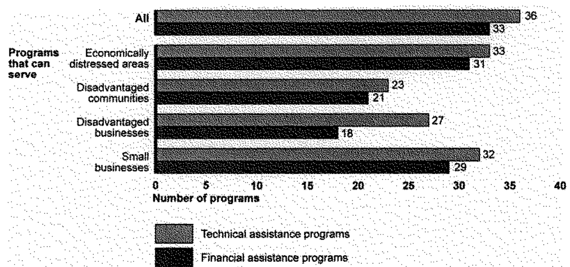
Notes:

[a]Some of the programs may not have received funding in fiscal year 2011.

[b]The 36 technical assistance programs include those in the following categories: technical assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and technical and government contracting assistance only. The 33 financial assistance programs include those in the following categories: financial assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and financial and government contracting assistance only. The seven government contracting assistance programs include those in the following categories: government contracting assistance only, technical and government contracting assistance only, financial and government contracting assistance only, and technical, financial, and government contracting assistance.

Furthermore, we found that much of the overlap and fragmentation among these 53 programs is concentrated among those that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses (see fig. 1 below). For example, 32 programs provide technical assistance to small businesses, including all 10 of the SBA programs that provide technical assistance. In addition, 33 programs provide technical assistance to businesses located in economically distressed areas, including 10 SBA programs providing such assistance.

Figure 1: Programs That Provide Technical and Financial Assistance, by Type of Business and Community Served, as of September 30, 2011



Source: GAO analysis.

Note: Some of the programs may not have received funding in fiscal year 2011.

The number of programs that support entrepreneurs—53—and the overlap among these programs raise questions about whether a fragmented system is the most effective way to support entrepreneurs. By exploring alternatives, agencies may be able to determine whether there are more efficient ways to continue to serve the unique needs of entrepreneurs, including consolidating various programs. In ongoing work, we plan to examine the extent of potential duplication among these programs as well as determine the effects of this fragmented system on the delivery of technical assistance to entrepreneurs.

To address issues arising from potential overlap and fragmentation in economic development programs, we previously identified collaborative practices agencies should consider implementing in order to maximize performance and results of federal programs that share common outcomes. Our work to date shows that Commerce, USDA, and SBA have taken initial steps to implement at least one of the collaborative practices—defining and articulating common outcomes for some of their related programs. For example, in April 2010 USDA and SBA signed a memorandum of understanding (MOU) in response to GAO's recommendation that the agencies establish a formal approach to encourage further collaboration. The MOU defined and articulated a common outcome focused on improving service delivery to small businesses in underserved rural areas. Under the MOU, USDA and SBA agreed that their field offices would advise potential borrowers of the other agency's programs that may meet their small business financing needs and coordinate the referral of small business applicants to one another where appropriate, work to make each agency's programs more complementary by minimizing differences in program fees and processing and closing procedures, and develop joint training seminars on each agency's programs. In addition, USDA and SBA agreed to measure progress under the MOU. USDA's April 2011 survey of state directors indicates progress under the MOU in several areas, including field offices advising borrowers of SBA's programs, referring borrowers to SBA and its resource partners, and exploring ways to make USDA and SBA programs more complementary. However, we have not received comparable information from SBA indicating progress in this area. In addition, HUD, USDA, and SBA have provided limited evidence that they have taken steps to develop compatible policies or procedures with other federal agencies, or to search for opportunities to leverage physical and administrative resources with their federal partners.

Agencies Lack Meaningful Information on the Effectiveness of Programs that Support Entrepreneurs

Based on our work to date, we found that 45 of the 53 economic development programs we identified that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals; however, the four agencies have either never conducted a performance evaluation or have conducted only one in the past decade for 39 of the 53 programs. Based on our review, we found that in the past 10 years SBA has conducted seven performance evaluation studies on some of its programs. Three of the seven evaluations have examined SBA's three main counseling and training programs. In order to effectively evaluate and oversee the services being provided, Congress and the agencies need meaningful performance information such as performance measures and evaluation studies. This information is needed to help decision makers identify ways to make more informed decisions about allocating increasingly scarce resources among overlapping programs. Specifically, performance measures can provide information on an agency's progress toward meeting certain program and agencywide strategic goals, expressed as measurable performance standards. In contrast, program evaluations are systematic ways to assess a broader range of information on program performance. As a result, evaluation studies can help identify which programs are effective or not, explain why goals were not met and identify strategies for meeting unmet goals, and estimate what would have occurred in the absence of the program.

Without results from program evaluations and performance measurement data, agencies lack the ability to measure the overall impact of these programs, and decision makers lack information that could help them to identify programs that could be better structured and improve the efficiency with which the government provides these services. Moreover, the Office of Management and Budget (OMB) has recently been required to coordinate with agencies to ensure that they better track the results of their programs. Specifically, the GPRA Modernization Act of 2010 (GPRAMA) requires OMB to work with agencies to, among other things, develop outcome-oriented goals for certain crosscutting policy areas; GPRAMA also requires agencies to report annually on how these goals will be achieved.[7] Other GPRAMA requirements could lead to improved coordination and collaboration among agencies. For instance, GPRAMA requires each agency to identify the various organizations and program activities—both within and external to the agency—that contribute to each agency's goal. In ongoing work, we plan to determine reasons why the agencies (1) do not conduct more routine evaluations of these programs and (2) have not established and do not track performance measures for 8 of the 53 programs.

Framework for Ongoing Analysis

As mentioned earlier, our ongoing work focuses on, among other things, (1) what support do federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness. To examine the support federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented, we will review information on the activities and services that the agencies conduct to administer each of the 53 programs, as well as associated budget information for each program. We will also evaluate the agencies' methods for tracking the activities conducted, services provided, and associated costs against criteria that we have established related to internal control standards. To identify the effects of technical assistance provided to entrepreneurs and the steps agencies have taken to address any duplication, overlap, or

[7] Pub. L. No. 111-352 (2011).

fragmentation, we will, among other things, conduct interviews with federal agency and regional commission officials, SBA resource partners such as Small Business Development Centers and SCORE, entrepreneurs, and state and local partners in select areas across the U.S., including in rural areas. During these interviews we will determine how the federal agencies collaborate to support entrepreneurs, identify any reported lessons learned from these collaborative efforts, as well as challenges they face to collaboratively support entrepreneurs. We will also obtain their views on the negative effects that the overlapping, fragmented, or duplicative programs have on the efficient delivery of services to entrepreneurs. Finally, we will interview program officials to determine the reasons why the agencies do not conduct more evaluation studies.

Chair Landrieu and Ranking Member Snowe, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contacts and Staff Acknowledgements

For further information on this testimony, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Marshall Hamlett and Triana McNeil, Assistant Directors; Cindy Gilbert; Geoff King; John McGrail; Jennifer Schwartz; and Karen Villafana.

Appendix I: List of Programs That Support Entrepreneurs and Related Budgetary Information

Agency	Program	FY 2010 obligations
Department of Commerce		
	Grants for Public Works and Economic Development Facilities	$158,930,000
	Economic Development/ Support for Planning Organizations	31,391,000
	Economic Development/ Technical Assistance	9,800,000
	Economic Adjustment Assistance	45,270,000
	Trade Adjustment Assistance	18,987,000
	Global Climate Change Mitigation Incentive Fund	25,000,000
	Minority Business Centers (merged the former Minority Business Enterprise Centers and Minority Business Opportunity Center programs)	10,113,693
	Native American Business Enterprise Centers	1,351,500
U.S. Department of Agriculture		
	Empowerment Zones	500,000
	Woody Biomass Utilization Grant Program	5,000,000
	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program/Rural Business Entrepreneur Development Initiative/BISNET	0
	Small Business Innovation Research	22,000,000
	Biomass Research and Development Initiative Competitive Grants Program	0
	Value Added Producer Grants	19,400,000
	Agriculture Innovation Center	0
	Small Socially-Disadvantaged Producer Grants	3,500,000
	Intermediary Re-lending	8,500,000
	Business and Industry Loans	52,900,000
	Rural Business Enterprise Grants	38,700,000
	Rural Cooperative Development Grants	8,300,000
	Rural Business Opportunity Grants	2,500,000
	Rural Microentrepreneur Assistance Program	9,000,000
Department of Housing and Urban Development		
	Community Development Block Grant (CDBG)/Entitlement Grants	2,760,223,970
	CDBG/Special Purpose/Insular Areas	6,930,000
	CDBG/States	1,176,594,747
	CDBG/Non-entitlement CDBG Grants in Hawaii	5,791,797
	CDBG/Brownfields Economic Development Initiative	17,500,000
	CDBG/Section 108 Loan Guarantees	6,000,000

Agency	Program	FY 2010 obligations
	Section 4 Capacity Building for Affordable Housing and Community Development	50,000,000
	Rural Innovation Fund	25,000,000
	CDBG Disaster Recovery Grants	100,000,000
	Indian CDBG	65,000,000
	Hispanic Serving Institutions Assisting Communities	6,250,000
	Alaska Native/Native Hawaiian Institutions Assisting Communities	3,265,000
Small Business Administration		
	8(a) Business Development Program	56,817,000
	7(j) Technical Assistance	3,275,000
	Procurement Assistance to Small Businesses	3,164,000
	Small Business Investment Companies	24,262,000
	7(a) Loan Program	518,869,000
	Surety Bond Guarantee Program	0
	SCORE	7,000,000
	Small Business Development Centers	112,624,000
	504 Loan Program	70,645,000
	Women's Business Centers	13,997,000
	Veterans' Business Outreach Centers	2,500,000
	Microloan Program	42,901,000
	PRIME	8,000,000
	New Markets Venture Capital Program	0
	7(a) Export Loan Guarantees	0
	HUBZone	2,189,000
	Small Business Technology Transfer Program	0
	Small Business Innovation Research Program	0
	Federal and State Technology Partnership Program	2,000,000
Total		$5,561,941,707

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Chair LANDRIEU. Thank you. And, Mr. Shear, to be honest, the overlap does not bother me, and even duplication does not bother me. What does bother me is ineffectiveness. I know there has been a lot made about your report by many people up here about overlap, overlap. All overlap means to me is that nobody is going to fall through the cracks, which makes me happy, because there are a lot of threats out there to small business, and I am happy there is overlap.

What I am not happy about is the lack of data about the effectiveness of these programs and that is why I started out my testimony saying that one of my goals this year is going to be to press the SBA for this effectiveness data because if programs are not effective these days. We just have to save the money and use that money elsewhere we can stretch that taxpayer dollar. So thank you for your testimony.

Mr. Hurn.

STATEMENT OF CHRISTOPHER G. HURN, CHIEF EXECUTIVE OFFICER AND COFOUNDER, MERCANTILE CAPITAL CORPORATION

Mr. HURN. Good morning, Chairwoman. I would like to share a few ideas on how the subsidy for the SBA 504 loan program can be reduced and ultimately eliminated. In these challenging economic times, when budgets are shrinking and the American people are demanding that Washington spend less, I believe that efforts to reduce or even eliminate the subsidy for the 504 is the best way to ensure its long-term strength and effectiveness. And let me be clear, we want 504 to become zero subsidy again.

One of the most effective ways to reduce the subsidy is to incentivize CDCs to actively pursue recoveries on their 504s. Billions in unnecessary losses on the 504 program are helping drive up the subsidy rate. Recent charge-offs, as we have already spoken about this morning reported by SBA, reveal that during the last three fiscal years, SBA has walked away from nearly $2 billion in the 504 program alone, and even more in other SBA loan programs.

We have the ability to make a substantial impact on these losses without requiring any additional taxpayer funds. Let CDCs aid small businesses while dramatically improving 504 recoveries. This will reduce the need for a subsidy and strengthen the program.

Given the opportunity to cover costs and share in the recovery dollars, this will create a win-win-win scenario. SBA will benefit from increased recovery dollars at zero cost to taxpayers. CDCs will benefit from minimizing the losses which in turn reduces the subsidy requirement. And in the end, borrowers continue to benefit from one of the finest small business capital access programs available.

I would also recommend extending the 504 Loan Refinance Program and the First Mortgage Lien Pool Program by at least one year. Thanks to the efforts of this Committee, as part of the Jobs Bill of 2010, they were both unfortunately subjected to bureaucratic delays, nearly 14 months in the case of 504 and nearly 19 months in the case of FMLP.

The reason for extending these two programs is that they will bring down the subsidy rate, because both charge higher fees to borrowers to offset future losses, 16.55 additional basis points for refi and 74.4 basis points for FMLP. I believe these fees are grossly overstated and will produce excess fees to help bring down the subsidies in the future. To let these programs expire prematurely as they are gaining momentum would be unwise and irresponsible.

In summary, we need to empower CDCs to maximize recoveries and extend two successful 504 loan programs that this Committee created less than two years ago, but have yet to get out of the starting gate. Thank you and I welcome your questions.

[The prepared statement of Mr. Hurn follows:]

Testimony of Christopher G. Hurn

Chief Executive Officer and Cofounder
Mercantile Capital Corporation

MERCANTILE
CAPITAL CORPORATION®
Fulfilling Dreams with Smarter Financing.®

Before the Senate Committee on
Small Business and Entrepreneurship

March 29, 2012

The FY 2013 Budget Request for the Small Business Administration

Chairwoman Landrieu, Ranking Member Snowe, and Members of the Small Business and Entrepreneurship Committee, good morning. My name is Chris Hurn and I am the CEO and cofounder of Mercantile Capital. I am honored to be here today to share my experiences and thoughts, along with those of my colleagues, who have co-signed this written testimony.

As the Committee considers the President's FY 2013 Budget Request for the SBA, I would like to share a few ideas on how the subsidy for the SBA 504 loan program can be reduced and ultimately eliminated. In these tough economic times, when budgets are shrinking, and the American people are demanding that Washington spend less, I believe that efforts to reduce or even eliminate the subsidy for the 504 program is the best way to ensure its long term strength and effectiveness.

I would like the Committee members to know that the solutions I will be putting forth today have the strong support of, and were developed in conjunction with, many of my colleagues from the SBA 504 industry. I implore you to give them very serious considerations, not only to act to reduce the subsidy and solidify the SBA 504 loan program, but also to enhance the 504 program's ability to more effectively assist small businesses all over the country. I speak for all of my co-signers when I say that we want the SBA 504 loan program to again become zero-subsidy, as quickly as possible, and to regain its purity as one of the finest examples of a public-private partnership programs available to our nation's small businesses.

I call my suggested solutions, **the three E's: Empowerment, Extension, and Extra Measures.**

1.) Empowerment

One of the most effective ways to reduce the subsidy is to incentivize Certified Development Companies (CDCs) to actively pursue recoveries on their SBA 504 loans. Billions in unnecessary losses on the SBA 504 program are helping drive up the subsidy rate on the program. Recent charge off amounts reported by the SBA reveal that during FY 2011, the SBA walked away from $784,015,047 in delinquent 504 loans with $618,097,680 during FY 2010, and $352,015,223 in FY 2009. As of 12/31/11, $241,209,328 more had already occurred.

Clearly we are in unprecedented economic conditions, and during such times, we should rise to the challenge with an extraordinary response. We have the ability to make a substantial impact without requiring any additional resources from the SBA and taxpayers. Let the CDC industry aid small businesses while dramatically improving the recoveries from 504 loans. This, in turn, will reduce the need for a subsidy and enhance the strength and viability of the 504 program.

CDCs are, in effect, SBA's experts in the field; they are intimately familiar with their borrowers, the local real estate market, real estate professionals, the economic environment and SBA policies. The main reason more CDCs are not currently pursuing recoveries is because there is no financial incentive to do so. In fact, there is a financial disincentive.

We are cognizant that recoveries are labor intensive and follow a variety of paths. Experience shows that having local experts working with banks and borrowers is a critical component of the success of a recovery program. SBA not only lacks the local connection, but they lack the resources to attack this issue at an appropriate level.

As long as SBA does not have the staff to pursue recoveries and CDCs do not have an incentive, very little will change. Furthermore, SBA seems motivated to quickly remove challenging loans from their portfolio. However, this calculation on the part of the SBA severely limits options to the small business owner, putting the business and associated jobs in immediate jeopardy.

SBA utilizes a calculation to determine if it is appropriate to support the CDC pursuing recovery on a defaulted loan. Unfortunately, this calculation is overly stringent and most of today's defaulted loans do not meet the criteria in order for SBA to protect that asset. Thus, SBA determines it is best for them to "walk away" from the real estate and expect no recovery; in reality this action severely reduces the possibility of obtaining a recovery. An overwhelming majority of the defaulted loans are turned down by SBA, which results in the billions of dollars landing in SBA's charge off column, unnecessarily. CDCs, however, are in a unique position to help the struggling small businesses and/or obtain substantial recoveries, even when SBA determines there was little to no value to pursue.

Results from CDC recovery efforts, initiated early on in the process, have been very favorable – from saving hundreds of businesses and thousands of jobs to recovering hundreds of millions of dollars that SBA would not have otherwise obtained.

When SBA declines to protect these assets, the CDCs step in and look at a variety of options that may salvage the company. For each potential action, the CDC will analyze the borrower's current financial capabilities and determine the appropriate assistance, which may include deferments or workouts (graduated payments, loan modifications including interest rate or term adjustments, and lengthening of the maturity date). If all else fails, the CDC can pursue Offer in Compromises (OICs) and short sales for recovery dollars as opposed to SBA wrapping up the loan with no recovery and sending it off to Treasury.

Given SBA support, qualified CDCs can offer the following accommodations:

- *Deferments* provide borrowers with a period of six to twelve months (longer with SBA approval) for partial or full deferment of the monthly payments. This often gives borrowers the breathing room they need to straighten out their finances, improve liquidity and build capital needed to keep the company operating. Experiences show a majority of these businesses have been able to get back onto a regular payment plan once their deferment time is complete.

- *Workouts* are provided to those that did not qualify for a deferment or were unable to re-engage in regular payments at the end of the deferment time. This tactic again focuses on keeping the business intact and saving the jobs. The CDC develops a payment plan that works within the borrowers' financial resources. This option provides SBA a **full recovery** and eliminates part of the millions of dollars SBA is charging off. Workouts are put into place after SBA has re-purchased the debenture and thus the CDC has many more options for assisting the borrower, such as reducing the interest rate, modifying the terms of the loan or extending the maturity date. With a combination of these options, the CDC and borrower come to a payment agreement and the business is maintained while the **loan is paid in full** under the new loan terms and conditions.

- *Short sales* are utilized when a loan does not qualify for a deferment or workout. The ability for the CDC to quickly get a short sale under way and work directly with third party lender ensures the maximum recovery. Should this process be prolonged – the percentage of recovery often goes down. The key is that the CDC is present and active for the crucial decisions, often made in conjunction the third party lender. When the 504 loan representative is not present, many decisions and sales are made without SBA's influence or participation and the availability of recovery dollars late in the game goes down substantially.

- *Offers in Compromise (OICs)* are pursued when all other recovery options have been exhausted. Although OICs are labor intensive, the rigorous research, borrower education and negotiations often result in additional recovery. The CDC works with the borrower to determine all possible payments that could be made in lieu of paying off the loan. These payments are submitted to SBA for final approval. Ultimately, these efforts are successful because CDC staff vigilantly follows the loans from first default and is in the best position possible to affect a positive OIC as an end result. Without such hands on influence, many small businesses are misled to believe bankruptcy is the best or only option left to them.

The CDC also provides assistance and, at times, recoveries from bankruptcies. This is a labor intensive process of following court mandates and the prolonged bankruptcy process, but does provide additional recoveries.

Some CDCs are currently performing these processes without any financial support from SBA. Unfortunately, even the simple costs are not covered by SBA. It should not be a surprise, therefore, that the vast majority of CDCs are not doing more to maximize recoveries.

We understand that defaulted loans are charged off and sent to Treasury for collection, which in turn, pays third-party collectors to pursue recoveries as part of the Treasury's Financial Management Service (FMS) Cross-Servicing Collection program. This will never be a wildly successful program, nor is it efficient, because the effort is being made very late in the process and typically by an organization and individuals that are not savvy about the SBA 504 loan program, or as familiar with the businesses in question. It is not a surprise, therefore, when we hear that Treasury collects approximately 30% from recoveries.

CDCs, however, because they could start the recovery process very early, are much more likely to catch companies at a point that results in a workout of the loan, rather than a default and subsequent charge off. This approach not only keeps millions of dollars from being in the charged off column, it also acts to retain all of the jobs associated with these struggling companies.

This recommended strategy of empowerment via a real incentive will not increase costs at all for taxpayers. CDCs should be reimbursed only from recovery funds that are actually realized; thus, CDCs only get paid if the recovery funds are returned to SBA. Additionally, on workouts, since there are no proceeds from the sale of collateral, I simply suggest putting the loan back onto regular servicing and allow the CDC to collect the typical servicing fee that they do from every other performing 504 loan in their portfolio.

It is important to remember that in the current environment, SBA is choosing to not defend on the vast majority of these charged-off loans, meaning that in many cases, the dollars that are recovered and actually returned to the SBA are literally the same amount above which the SBA was expecting to collect, because by choosing not to defend on a particular loan, the recovery on that loan would have been ZERO.

One CDC, alone, has placed 48 small businesses on workout status, thereby saving roughly 750 jobs and keeping nearly $35 million from being charged off by SBA. Imagine how astounding these numbers could be if they were applied across the nation. At the very least, in light of the lack of funds necessary, we urge the Committee to consider, at a minimum, instituting a pilot program to increase the volume of recoveries across the nation and allow CDCs to participate directly in such a pilot program, or "outsource" their recovery efforts to those CDCs that are willing to participate. Common sense suggests that only in this way will recoveries be dramatically improved over what the Fresno or Herndon offices are currently capable of doing.

Furthermore, the process works best if SBA would support the CDC's efforts by expeditiously giving the CDC documentation needed to pursue the property or recoveries and signing off on any required data or strategies. Then the CDC can more easily address recoveries effectively. This will free up SBA staff to concentrate on other issues, act to maximize recoveries by quickly utilizing experts in the field, reduce the cost for SBA staff to work on recoveries and ultimately provide a smoother process and result in minimizing program losses This also eliminates SBA staff pressure to wrap up defaulted loans and get these loans off of the SBA books, which only serves to cut off the borrowers' options and reduce any chance of saving businesses (and jobs) while maximizing recoveries.

It is through timely, dedicated, purposeful actions that CDCs find great success with recoveries. CDCs provide the local presence that is willing to get involved and fight for every job, every business and every dollar of recovery. The businesses need an ally and the SBA needs to encourage these kinds of recovery efforts across the country.

Given the opportunity to cover costs and share in the recovery dollars, this will create a "win-win-win" scenario: SBA will benefit from increased recovery dollars; CDCs will benefit from minimizing the losses, which in turn reduces the subsidy requirement; and, in the end, borrowers continue to benefit from one of the finest small business capital access programs available.

Solution: EMPOWER CDCs to make recoveries in the 504 loan program and develop an incentive model to do so effectively, efficiently and fairly, based on previous practices within other agencies and departments of the federal government, and at ZERO cost to taxpayers.

2.) Extension

We recommend extending the SBA 504 loan refinance program and the First Mortgage Lien Pool (FMLP) program by at least one year each. Both of these temporary (24-month) programs were passed as part of the Small Business Jobs and Credit Act of September 2010, however, they were both subjected to severe delays, which has hampered their utilization and impact for the small business sector of our economy. These delays of nearly 14 months, in the case of SBA 504 refinance, and nearly 19 months, in the case of FMLP, greatly harmed their rollout.

Table 1:

SBA REFINANCE LOAN APPROVALS

Month	Approved Dollars (Millions)	Approved Loans
Mar 2011	$2.07	5
Apr 2011	$6.43	9
May 2011	$23.48	22
June 2011	$36.71	49
July 2011	$53.53	70
Aug 2011	$54.70	62
Sept2011	$78.43	90
Oct 2011	$44.35	58
Nov2011	$89.79	91
Dec2011	$116.86	129
Jan 2012	$128.42	143
TOTALS	**$634.77**	**728**

The reason an extension of these two programs will bring down the subsidy rate is because both charge higher fees to borrowers to offset future losses (16.55 additional basis points for 504 refinance and 74.40 additional basis points for FMLP — neither program was subject to the same statutory fee limitation in the regular 504 program). But based on my personal experience in the industry and with very limited historical data on 504 refinances, I believe these fees are grossly overstated and hence will produce excess fees to help bring down the subsidies for the 504 loan program in the coming years. These additional fees are enlarging the future pool set aside for losses; thus, to let these programs expire shortly (in September 2012) as they are now gaining momentum and meeting the needs of the small business credit marketplace, would be unwise and irresponsible.

Table 2:

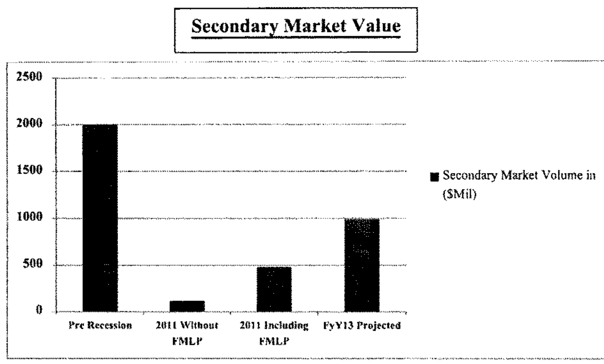
FMLP HISTORICAL POOL SETTLEMENT DATA

POOL ISSUE DATE	NO. OF POOLS	NO. OF LOANS	AMOUNT
9/1/2010	2	20	$32,027,783.98
10/1/2010	1	6	$10,166,821.29
11/1/2010	3	13	$16,083,845.56
12/1/2010	4	20	$34,006,332.26
1/1/2011	0	0	$0.00
2/1/2011	2	9	$18,479,353.80
3/1/2011	1	2	$2,093,676.52
4/1/2011	1	7	$4,863,264.49
5/1/2011	4	21	$18,052,525.45
6/1/2011	1	2	$725,229.09
7/1/2011	5	14	$9,096,696.70
8/1/2011	3	9	$11,591,202.65
9/1/2011	7	20	$21,854,265.54
10/1/2011	4	12	$9,898,732.87
11/1/2011	3	8	$8,479,467.89
12/1/2011	10	24	$47,632,853.20
1/1/2012	3	20	$14,287,120.66
2/1/2012	9	26	$26,456,838.24
3/1/2012	9	54	$40,359,312.12
TOTALS	**72**	**287**	**$326,155,322.31**

Nationwide, the 504 refinance loan volume confirms there is a healthy demand for these loans, even with the higher fees. According to recent data I have received from Mark Quinn, the SBA District Director for the San Francisco District Office, SBA 504 refinances have amounted to 14.7% of the number of 504 loans made in the First Quarter of 2012 and 20.6% of the total SBA 504 dollars nationally. This compares with just 3.9% of the total numbers and 5.3% of the total dollars nationally in all of 2011. In other words, the SBA 504 refinance program is accelerating since the Agency's final regulations were released in mid-October of 2011, only five months ago.

In today's reality of more stringent banking regulations, many performing loans (making their payments) are being declined for refinancing. This is not because these borrowers are missing payments or need a bail out — it is simply caused by the drop in commercial real estate values and the negative impact that drop has had on banks' loan to value ratio requirements. In the end, the ability to offer the 504 loan refinance program to these performing borrowers is often the only option available to these businesses. Further, this option provides lenders an opportunity to help their borrowers stay in business, maintain the jobs and keep a performing loan on the bank's books.

The Office of Management and Budget (OMB) recently released a "Subsidy Reestimate" of the Federal Credit Supplement. In Table 8, "Loan Guarantees: Subsidy Reestimates," it showed the 504 refinance loan subsidy rate would jump from 0% to 6.67% for FY 2013. My experience does not indicate that such a radical jump is necessary, and I question how this figure was formulated. I suggest, and my experience thus far confirms, that the default rate on the 504 refinance loans will remain very low. Please keep in mind that the refinance loans are only for performing loans (startups, a higher-risk category of borrowers, were automatically excluded), ones that are currently meeting their monthly payments — this, along with several other risk-mitigating parameters, were clarified by the Agency. Furthermore, most are paying less each month with the historical, low 504 refinance rates now available and a longer-term loan, when reamortizing their loan. I suggest these parameters in fact make the 504 refinance loan borrower stronger and less of a risk than even current, traditional 504 loan borrowers. Opposition to extending the 504 refinance based on equating it with other recent residential loan modification programs is based on faulting reasoning and creating a completely invalid analogy.



The small business credit markets, while somewhat "thawing" currently for multi-use, owner-occupied commercial property, have yet to begin thawing for credit-worthy special-purpose commercial property types (such as limited-service hotels, restaurants, daycares, assisted-living facilities, and so forth), all of which are currently being financed with FMLP and thereby injecting additional liquidity into the small business credit marketplace for other capital access purposes. In creating the FMLP, the Agency rightly recognized they could actually lower their risk profile by taking preferential risk (guaranteeing a first lien, in addition to their second lien position), while aiding capital access with this secondary market for 504 first liens. Restricting 504 loans now (by not extending these 504 programs) could exert downward pressure on a modestly recovering commercial property market, not to mention further restrict capital access to small businesses.

Solution: EXTEND the 504 refinance and FMLP programs by a MINIMUM of one year.

3.) Extra Measures

We call these "extra measures" because while they would both have a significant impact on the subsidies, we consider these to be worst-case solutions and only include them as a demonstration of intellectual honesty. These solutions would be to lower the SBA 504 loan program authority dollars and increase borrower fees above their statutory maximum.

Lower. By slightly reducing the yearly allocated lending authority for the SBA 504 loan program, the necessary subsidy will also go down. For instance, lowering the authority to $5 billion (from $6 billion proposed) will lower the estimated subsidy from $113 million to $94.166 million (a reduction of $18.834 million or 16.67% less). Although this is not ideal, as we would prefer not to see any decrease to the authority limits on the SBA 504 loan program, we clearly understand the importance of reducing, or ideally eliminating, the subsidy requirements for the program. The 504 program is much more stable as a self-funded program. Additionally, through this tough economic climate, we do see less traditional 504 loans and feel strongly that the extension of the refinance loan and FMLP programs would keep the 504 loan program available to many small businesses in desperate need of capital access financing. Furthermore, we see this as a temporary measure that will reverse itself over the next few years as the subsidy rate naturally declines.

Raise. By slightly raising the borrower guarantee fee from the current statutory limit of 0.9375, we could allow borrowers to continue covering the cost of the program and again stabilize the entire 504 loan program. The amount of increase to borrowers does not have to be significant and would likely not deter any qualified borrowers from utilizing the program. However, this could be a minimal increase if it is coupled with some of the concepts previously mentioned in this document. For ease, we would suggest these be raised to match the 504 refinance fee level (1.103) versus the current statutory maximum (0.9375). This increase of 16.55 basis points would result in a reduction of the estimated $113 million subsidy to $103.07 million (a reduction of $9.93 million or 8.78% less). Again, this is not an ideal strategy, but given that it should be temporary, it is well worth investigating to ensure the subsidy rate is ultimately reduced.

Three E's: Empowerment, Extension, and Extra Measures. These are the three ways that the SBA 504 loan program can become zero-subsidy once again. I urge the Committee to consider these recommended solutions, particularly Extending the 504 refinance program, Extending the FMLP program, and Empowering CDCs to become more involved in the recovery process. Please take action on these expeditiously.

Thank you, once again, for your time and consideration.

Respectfully submitted,

Christopher G. Hurn,
CEO and Cofounder
Mercantile Capital Corporation

The following people have requested to be listed as "co-signers" to this testimony. This support from SBA lending industry leaders came with just three days notice.

ALABAMA

Alabama Small Business Capital
Angie Sweatman, Vice President

ARIZONA

The Bank of Las Vegas, NM
Sundip Patel, Executive Vice President
Sanat Patel, Executive Vice President

ARKANSAS

West Central Arkansas Planning & Development District
Dwayne Pratt, Executive Director

CALIFORNIA

ACG Companies
Paul Garcia, Managing Partner

Business Loan Capital
Fredric Mills, President/CEO

CDC Small Business Finance
Kurt Chilcott, CEO & President

Coleman Publishing
Bob Coleman, Owner

EDF REsource Capital
Frank Dinsmore, CEO

Enterprise Funding Corporation
Jeff Seranka, President

Landmark Certified Development Corporation
Eddie Evans, President/Executive Director

Mid State Development Corp.
Keith Brice, President

National Association of Premiere Lenders (NAPL)
Bruce Thompson, Executive Director

OneWest Bank
William Sommer, Senior Vice President

Pacific Enterprise Bancorp
Brian Halle, President

Plaza Bank
Todd Massas, Senior Vice President

Success Capital Economic Development Corporation
Susan Martin, President & CEO

TMC Financing
Barbara Morrison, CEO
Sunni Raney

Wholesale 504 Lending Solutions
Jordan Blanchard, President

COLORADO

Colorado Lending Source
Mike O'Donnell, Executive Director

CONNECTICUT

Connecticut Business Development Corp
Ed Zalinsky, President

FLORIDA

Aegis RE Partners
Joe Bonora, Managing Director

Aileron Capital Management
Michael Maguire, Managing Director

Fidelity Bank
Joseph Arie

Florida First Capital Finance Corporation
Angie Graves, Senior Vice President
Todd Kocourek, President & CEO
Gail Lagace, Senior Vice President
Loretta Muthusek, Vice President
Kristen Tackett, Vice President

GulfCoast Business Finance, Inc.
Jim Burnham, Vice President

Hunter and Harp Capital Partners
John McNeill, Partner

Inkbridge,LLC
Kim Rivers, Principal

Mercantile Capital Corporation
Chris Hurn, CEO

Newtek Business Services, Inc.
Scott Shulman, Senior Vice President

Old Florida National Bank
John Burden, Sr., President

GEORGIA

Asian American Hotel Owners Association (AAHOA)
Fred Schwartz, President

Capital Partners CDC
Barbara Benson, President

First National Bank of Coffee County
Lee McLean

GA REsource Capital
Tim Souther, Executive Director – Acting

Small Business Finance Institute
Charles Green, Executive Director

IDAHO

Region IV Development/Business Lending Solutions
Joe Herring, President

The Development Company
Angie Hill

The Development Company
Dave Ogden

ILLINOIS

Cortland Capital Market Services
Russ Goldenberg, Principal

Rockford Local Development Corporation
John Phelps, Executive Director

SomerCor 504, Inc.
David Frank, President

IOWA

Iowa Business Growth Company
Steve Cruse, Vice President

Peoples Bank
Joe Van Tol, CEO

Siouxland Economic Development Corporation
Ken Beekley, Executive Vice President

KANSAS

Landmark National Bank
Patrick Alexander, President & CEO

Pioneer Country Development, Inc.
Randall Hrabe, President

KENTUCKY

Capital Access Corporation
Bill Fensterer, President

LOUISIANA

Coface Credit Services NA
Roxanne Melerine

MARYLAND

FSC First
Shelly Gross-Wade, President & CEO

MICHIGAN

Economic Development Foundation
Sandra Bloem, Executive Director
Abbey Byrne

Lakeshore 504
David Miller

Michigan Certified Development Corp.
David Kramer

SEM REsource Capital
Mark Davis

MINNESOTA

SPEDCO
Kristin Wood, Executive Director

Twin Cities Metro CDC
Peter Ingebrand, President

MISSOURI

First Bank
Gay Schwer, Vice President

NEBRASKA

SBA/Loan Solutions
Sandy Kasen, President

NEVADA

Meadows Bank
Calvin Regan, Senior Vice President

NEW HAMPSHIRE

Capital Regional Development Council
Stephen Heavener, Executive Director

NEW JERSEY

Across Nations Pioneers, Inc.
Hyun Kim, CEO & President
Andy Kron, COO

New Jersey Business Finance Corp.
Ira Lutsky, President

Oleander Feldman, LLP
Justin Blackhall, Attorney

Regional Business Assistance Corporation
William Pazmino, Executive Director

NEW YORK

Commercial and Business Advisors, LLC
Thomas Zawadzki, President

Lexden Capital, LLC
David Soares, President & CEO

New York Business Development Corp
Steven Willard, Senior Vice President

Weichart Commercial Brokerage
Rich Latrenta, Vice President

NORTH CAROLINA

Centralina Development Corporation
Richard Vitolo, President
Lisa Johnson

Neuse River Development Authority
Larry Riter

Smoky Mountain Development Corp
Allan Steinberg, Executive Director

Wilmington Business Development
Susie Parker

OHIO

Growth Capital Corp
Juan Hernandez, Director

Midwest Business Capital
Dick Witherow, President

PENNSYLVANIA

Conestoga Bank
Scott Little, Vice President

DelVal Business Finance Corp.
Michael Schwartz, President

PNC Bank
Kevin Bordner

RHODE ISLAND

Independence Bank
Robert Catanzaro, President

SOUTH CAROLINA

BCI Lending Services
Todd Lucas, Senior Vice President

Windward Financial, LLC
John Monroe, Founder and Managing Member

TEXAS

Commercial Bank of Texas
Ken Byrd, Vice President

Community CDC
Bill Ebersole, President

Greater Texas Capital Corporation
John Hart, President

NewFirst National Bank
JP Prinz, Vice President

Southwest Community Investment Corp
Maria Mann, Executive Director

UTAH

First Utah Bank
Jared Livingston, Vice President

Proficio Bank
John Holt, Vice President

Utah CDC
Caryl Eriksson, VP/COO

Zions Bank
Howard Anderson, Senior Vice President

WASHINGTON

Ameritrust CDC
Kim Willis, President

Evergreen Business Capital
Wendy Avila, Vice President
Tom DiDomenico

Northwest Business Development Association
Erik Houser

WASHINGTON, D.C.

Green Duck, LLC
John Duckett, President

WYOMING

Security First Bank
Ron Van Voast, President

Chair LANDRIEU. Thank you. This will be a very interesting debate between the Chamber of Commerce on one side, Mr. Wilkinson on another, and you arguing for the opposite position. I am going to ask you how Mercantile Capital makes its profits and how your company operates.

Go ahead, Mr. Evers.

STATEMENT OF RIDGELY C. EVERS, MANAGING PARTNER, TAPIT PARTNERS, L.L.C.

Mr. EVERS. Chair Landrieu, Senator Snowe, members of the Committee, my name is Ridgely Evers. I am a member of the Board of SCORE, as well as a serial entrepreneur with a lifelong passion for small business. I came here today from Silicone Valley because I believe in the power of SCORE. I know you do, too, which is great because we need your help.

I would like to make three points today. First, SCORE is so efficient that it makes you money. We are lean. In 2011, we served over 400,000 small businesses with just 18 paid employees supporting over 10,000 volunteers in over 1,000 locations, a volunteer-to-staff ratio that would be the envy of any non-profit.

In 2011, we helped over 40,000 new businesses get started at a cost of $172 each. And at the cost of just $73 each, we created—our clients created 95,000 jobs. What that means is that for every one dollar this Committee invests in SCORE, our clients returned $57 to the Federal Treasury. We believe that is unparalleled by any other program.

Second, no organization is more effective at mentoring than SCORE. Essentially, all SCORE clients are first-time entrepreneurs. First-time entrepreneurs are prone to making preventable mistakes, mistakes that result in under-performance or even outright failure.

Because our volunteers are experienced business people, not paid employees, they have seen this movie before in their professional lives and they are uniquely equipped to help our clients avoid these mistakes, not just once, but over the life of their business.

We do not teach our counselors about business. They are business people. But what we can and do teach them is to be effective mentors and give them the tools and infrastructure that they need to provide better service, and our results speak for themselves.

Importantly, SCORE itself runs like a business. You talk about metrics. We are constantly working to improve. To that end, over the last three years, we have been investing in powerful new infrastructure that when complete will allow us to bring our best resources to every client regardless of where they are and regardless of where the resources are. Those same systems will enable us to create virtual centers of excellence in areas from farming to finance to fabrication.

Third, SCORE can scale. You have got us in at $11.5 million for 2013. Senator Snowe has supported us; we are grateful for that support. And we understand that in this climate, you have to face tough decisions. We also recognize that the amount that any organization can grow year over year is limited, and in that spirit, we respectfully increase—we respectfully request an increase to $9 million in fiscal year 2013.

That increase will not go to grow more SCORE. As you can see from the chart, the green part is SCORE. Everything above it is facing the client. It will flow disproportionately to client services. Thus, the increase would significantly and immediately grow tax revenues. That is good math. Conversely, our data suggests that the proposed $700,000 cut would result in a $15 to $20 million decrease in Federal tax revenue. That is bad math.

I have worked with and invested in a lot of businesses over my career and SCORE has all the attributes you look for when making an investment, efficiency, effectiveness, and the ability to scale. With your support, we can do that. Thank you.

[The prepared statement of Mr. Evers follows:]

Ridgely Evers
Board Member
SCORE "Counselors to America's Small Business"

Statement
to the
U.S. Senate Committee on Small Business & Entrepreneurship
United States Senate
March 27, 2012

Chair Landrieu, Senator Snowe, and members of the committee: my name is Ridgely Evers and I am a member of the Board of SCORE. Thank you for the opportunity to offer testimony regarding the Administration's proposed budget for the United States Small Business Administration (SBA). I came across the country on my own free time, because I believe in SCORE, and I am here to tell you why you should believe in it too, and support SCORE not merely by maintaining its budget at $7 million but by increasing its funding.

SCORE is a unique national treasure that serves the two great American ideals: entrepreneurial spirit and volunteerism. The value SCORE provides sits at the intersection of those two great ideals, helping small businesses succeed by supporting the business people who volunteer to help them. These small businesses are the engine of America's job creating economy, the fabric of our local communities, and the embodiment of the American dream.

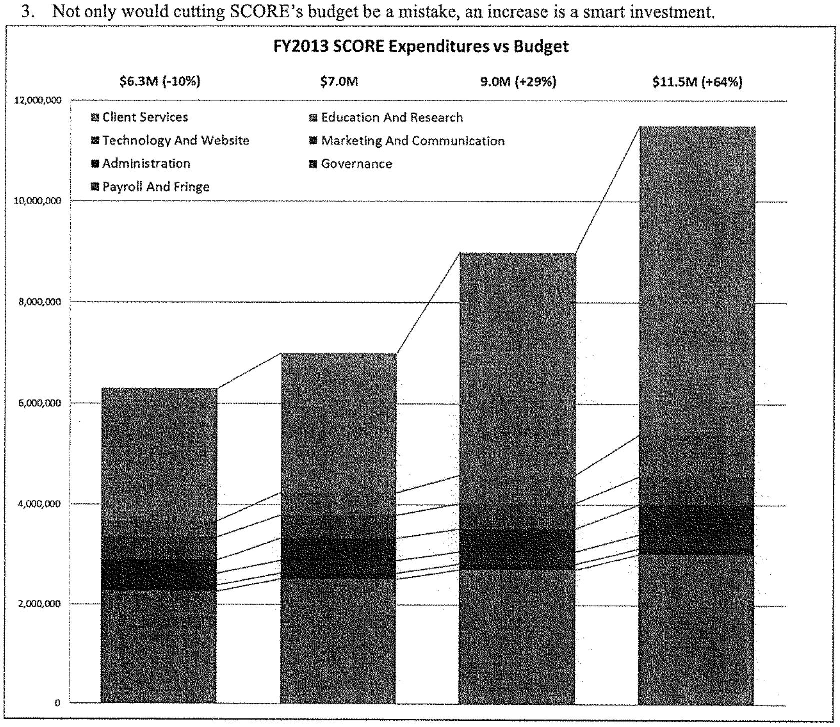
I want to make 3 points:

1. SCORE is so effective and efficient as a catalyst for job creation that it actually makes the federal government money.
   - For every $1 appropriated to SCORE, $57 flows into the federal treasury from SCORE clients.
   - SCORE amplifies every dollar given to us by the federal government because our counselors and our field managers are volunteers.
     - We provide the support, training, tools and infrastructure to enable our volunteers to provide quality mentoring to small business owners in their local communities.
     - We facilitate the connections between those volunteer experts to the 350,000 clients each year looking for guidance.
   - In *new* payroll taxes alone, our data suggests that the work of each SCORE volunteer is responsible for $40,000 to the federal government each year.
   - In 2011, we helped over 40,000 new businesses get started; that works out to just $172 each.
   - The cost of each of the over 95,000 jobs created by SCORE clients in 2011 was just $73. Moreover, our data suggests that this cost would be substantially lower if business owners were included in the job numbers in addition to employees.

2. Of the two things small businesses need to be successful – money and mentoring – no organization is more effective at the mentoring component than SCORE.
   - Essentially all SCORE clients are first-time entrepreneurs. First-time entrepreneurs are prone to making preventable mistakes – mistakes that result in under-performance or even outright failure. Our volunteers are uniquely equipped to help our clients avoid these mistakes by virtue of their real-world business experience, informed by the training and structure provided by SCORE.

- The beauty of SCORE's model is that our volunteers are business people helping business people solve business problems. Because they are part of the local community, they are there for the long haul, providing the ongoing, free advice needed to avoid pitfalls and reach their potential.
- Neither we nor anyone else can (or should try to) create more entrepreneurs – they are a special breed. What we can do is help entrepreneurs and small business owners achieve success. We give the people who have entrepreneurial drive the tools to succeed.
- One of the areas we have been investing in is our infrastructure, which will allow us to bring to bear our best resources to all clients regardless of where the clients are. This is one of the things that would be sacrificed with a cut in our funding.

3. Not only would cutting SCORE's budget be a mistake, an increase is a smart investment.



- Both Senator Landrieu (who proposed an increase to $11.5 million in her views and estimates letter in 2013) and Senator Snowe (who supported level funding at $7 million) have consistently demonstrated their support of SCORE. We are deeply grateful for their continued support.
- We understand that today's economic climate means you are facing many challenges related to our nation's budget, and we also recognize the practical limits with year over year growth for any

organization. In that spirit, we respectfully request an increase to $9 million which we could put into effect immediately and beneficially.

- In 2013, with an increase to $9 million, funding would flow disproportionately to client services, immediately impacting the small businesses owners SCORE volunteers are helping in their local communities every day to start businesses and create more jobs.
- Getting a bigger budget does not mean cost per job increases; we amplify that additional funding to help small businesses create even more jobs.
- Currently, President Obama's proposed budget cuts SCORE's funding by 10%. Given the universal acknowledgement that small business growth is the key to sustainable job creation, SCORE's consistent track record of positive economic impact warrants additional investment even during this difficult economic time.
- With this proposed cut, we would take the biggest hit in our core services, halting projects designed to improve quality and client services, in order to maintain services to our current clients.
- The amplification of the federal dollar that we provide works both ways: our data suggests that the proposed $700,000 decrease in funding will result in a $15 million to $20 million reduction in federal tax revenue.
- Conversely, with more money, we can expand and provide better services for both our volunteers and the businesses they serve. We can create more jobs and start more businesses by executing our current plan to grow and expand in new areas, such as rural, inner city, and underserved markets.

SCORE exists for one reason and one reason only: to help entrepreneurs achieve their dream of success and strengthen the economy of this great nation. We appreciate the support of this committee and your personal support of SCORE.

I would be pleased to answer any questions you may have, and we will provide you with additional documentation as requested. Thank you again for this opportunity to testify.

Respectfully submitted,

Ridgely Evers
Board Member
SCORE Association

Chair LANDRIEU. Thank you very much. My first question is to you, Mr. Shear. Have you reviewed the SCORE program in your analysis of overlap and fragmentation specifically, and if you have, do you have any comments about it? I realize it is not a Government run program; it is a non-profit, but the Government is one of its largest contributors. It has private sector contributors as well.

Mr. SHEAR. What our focus has been is on SBA's oversight of its entrepreneurial development programs, and as part of that, as I noted in my statement, is that SBA has conducted evaluations of these programs. So our primary evidence on the SCORE program comes from those evaluations.

The reports from those who participate in the program tend to be positive. As you know, the three different programs serve slightly different populations, but I think those evaluations speak for themselves.

The other area where we are still conducting work is in many rural areas and especially depressed economies, including the Delta Region where we look at the resource partners and how they interact with other players in the economic development process. So from that, we have a certain lens on all the resource partners, but again, we are relying heavily on SBA information.

Chair LANDRIEU. Well, I think this is—I do not know how to—I mean, your report has gained a lot of notoriety, good and bad. We are going to have to, at some point as a member of Congress, stop talking about overlap, fracturing, duplication and start getting into the meat of the question for policymakers like myself, which the bottom line is, just tell me what is working and what does not and how you measured it.

Or just tell me what is working the best for the least amount of investment. So I want to ask you again. Do you have an independent evaluation of SCORE, yes or no? You are just taking the information that the SBA has given you? And I could also ask, do you think the evaluation that SBA has done is sufficient to get at what I am asking?

In other words, for every dollar that we are investing, which is a very small amount of money, are we getting the results that Mr. Evers has claimed we are? Do you think that is true or not?

Mr. SHEAR. We do not have a basis to answer your direct question. Where I would completely agree with you, and especially in that our major story here is it is overlap, but it is really about fragmentation. It is, how well do these various programs all work together.

Chair LANDRIEU. I do not even think it is about fragmentation or overlap, to be honest. It is just about effectiveness. And I need you to do a different kind of job to tell me what programs are really working and what programs are not first. And then the second thing is, we have the good news.

Like, for instance, Senator, would be this program is really working well. You only gave it $5 million and it produces a gazillion dollars. This program you give $10 million to, it produces only half. So you could decide. You want to stay with this one or go with that one? Now, they do overlap so you do not really need both of them.

That is the way I need this information presented to me, and you have not so far. So what you have done, and I know you are wellintentioned, but what you have done is provided enough fodder for people to run around, which they have been running around, claiming that our programs are dysfunctional because they overlap. Our programs are dysfunctional because one works in a rural area or two work in a rural area and maybe we should just have one.

It is not helping. I want to be honest with you. I know your intention is to help, but it is not helping because a helpful report gives you an actionable path forward. Just continuing to talk about overlap is not. So I am not going to let you keep talking about it when you are in front of my Committee.

I am going to ask you, when you report here, to talk about a program's effectiveness, and if you have information, any information that says that this program is not what Mr. Evers says, you need to tell me, or whatever other program. Okay?

Mr. Wilkinson, I am going to ask you to respond to Mr. Hurn, and why do you think he is wrong because you testified completely opposite. You support the subsidies. He wants to get rid of them. And he thinks the program can work without the subsidies. So what do you want to say about that?

Mr. HURN. First I would say he was commenting on the 504 program from his perspective, and I think he was looking for a path to get to a zero. In the past, we have had a zero subsidy in the 7(a) program as well.

Chair LANDRIEU. So you agree with him, that we could get to a zero subsidy in 504?

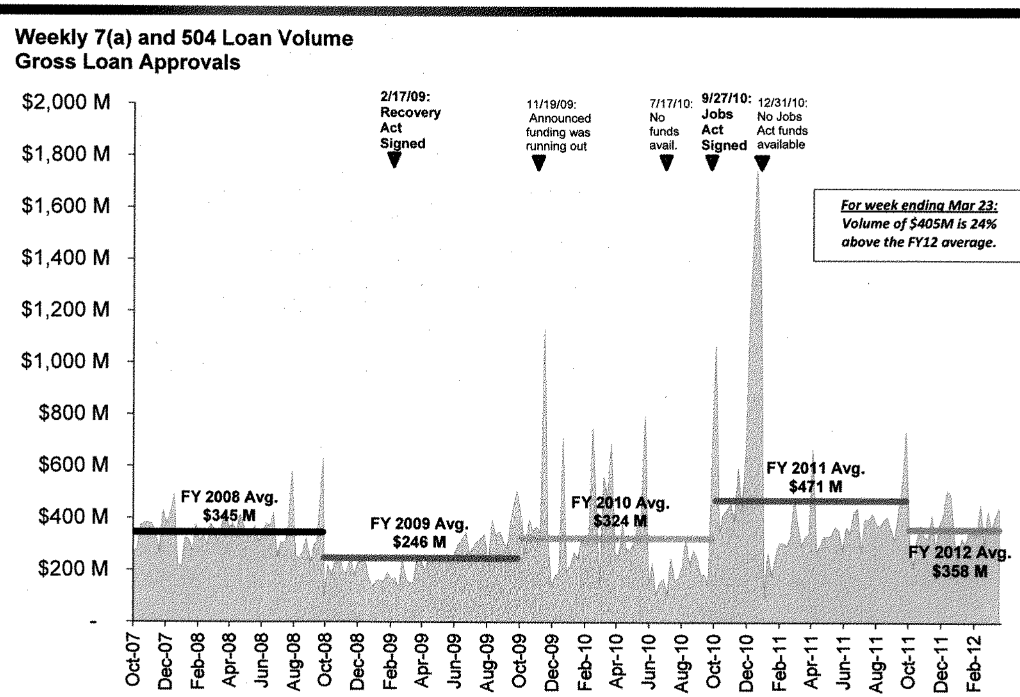
Mr. HURN. At an appropriate time. And as we had in our written testimony, when we had the funding from the Jobs Act and the Recovery Act and we reduced the cost to borrowers in the program and increased the guarantees, we saw our loan volume go up dramatically. When we ran out of those fundings, we saw our loan volume drop dramatically. And in fact, our current fiscal year volume is already below—about 10 percent below fiscal year 2010.

Chair LANDRIEU. So how precipitously did it drop without the reduction in fees? I think this chart—I do not know if you have——

[The chart follows:]

SBA U.S. Small Business Administration

Grow Businesses and Create Jobs – Access to Capital
Weekly 7(a) and 504 Loan Volume: As of March 23, 2012



NOTE: All loan volumes are gross loan value approved. Typically, due to cancellations and loan size reductions, approximately 9-12% of gross approval value does not get disbursed.

Mr. WILKINSON. I am sorry. I cannot——

Chair LANDRIEU. Yeah, I am sorry. You do not have access to these charts. But go ahead. I am sorry. Go ahead and just repeat what you said, that the loan volume——

Mr. WILKINSON. The loan volume in fiscal year 2012 that has the same fee structure today that we had in 2010, we are running about 10 percent behind fiscal year 2010. So any further increase in fees today would likely cause that loan volume to drop even further, which is not something we want to do given this really is small businesses' only access to long-term capital.

Chair LANDRIEU. And so, Mr. Hurn, tell me again why you want to increase the fees.

Mr. HURN. I think it is not sustainable long-term for these programs to operate with a subsidy. And the fact is, in the recent history, we have operated at zero subsidy and you have two programs, specifically the 504 refi and the FMLP program that are set to expire this September, both of which are meeting tremendous demand in the marketplace.

Chair LANDRIEU. Well, if Senator Snowe were here, she could put back up her chart that when the rate of no subsidy, when it was zero, the default rate was the highest. And I am not sure we want to have a high default rate. I do not know if it was related, because it was a default rate that is what is part of the subsidy is taking—is including the default rate made in the years where the program was operating with fees that paid for it. I do not know if there is a cause and effect.

Mr. HURN. Can we put——

Chair LANDRIEU. But getting back to it, you think that we should just charge the small businesses the fees? You think that the loan volume will stay up? And does your company make more or less money or the same when the fees are low or high?

Mr. HURN. It makes the same.

Chair LANDRIEU. Same amount.

Mr. HURN. It does not matter.

Chair LANDRIEU. So it does not matter?

Mr. HURN. And the fact of the matter is, we have data that shows that refis and FMLP are both meeting demands in the marketplace, even though they have additional fees above the statutory limit of the 93/75 basis points.

And then to the default point, 504s have had, of average historically, just under 2 percent default rate before the great recession hit about three years ago. So I am not really sure what the data was that we were referring to a few moments ago. But I do not see it as a—I think it is easy at one point see it as a tax on——

Chair LANDRIEU. So the default rate of the program——

Mr. HURN [continuing]. Small business.

Chair LANDRIEU [continuing]. Is very low.

Mr. HURN. Yes.

Chair LANDRIEU. The default rate is very low.

Mr. HURN. Yes.

Chair LANDRIEU. But you just object to the low fees. You want the fees to be higher and the guarantee rate to be lower?

Mr. HURN. I would love to have no fees, but the reality is, in the world we live in, we have to be responsible, and I think this is such a tremendous loan program that is meeting the needs and is so far superior to ordinary commercial financing out there right now, that I have seen it with my own eyes. I have the data that backs it up. It is in my written testimony.

These are two programs that need to be extended, and the 504 is really carrying a lot of the commercial banking loans out there right now. So yeah, I do not see it as something that is going to turn people away.

Chair LANDRIEU. Okay.

Mr. Wilkinson.

Mr. WILKINSON. Can we spend just a minute on the subsidy calculation, the chart that Senator Snowe had up there?

Chair LANDRIEU. Yes.

Mr. WILKINSON. If you look, let us just take the 2008 subsidy rate, which was zero. That subsidy rate was submitted in the President's budget request in February of 2007 and most of the work on that number was completed by the end of calendar year 2006. So at the end of 2006, you are estimating what you think the subsidy rate is going to be for the cohort of loans made during that fiscal year time period.

So first of all, the subsidy rate will never, ever be exactly correct. It is a guess. And so as we see in fiscal years 2005, 2006, 2007, and 2008, I believe, the original estimate was a zero subsidy rate.

Now, what the Credit Reform Act requires is that SBA go back in and look every year and say, Okay, this is what we estimated was going to happen. What actually happened? And we know that in fiscal year 2008, as we got into the recession, we were not at a zero subsidy rate. That number was incorrect. Our losses, because of the recession, because of its depth and its breadth were higher.

Chair LANDRIEU. So you are saying that this chart is incorrect?

Mr. WILKINSON. Those are original estimated subsidy rates. That is right out of the President's budget request every year.

Chair LANDRIEU. Original, but the actual would be different?

Mr. WILKINSON. Yes, ma'am.

Chair LANDRIEU. And do we know what the actual is?

Mr. WILKINSON. So what they do with the subsidy model, and I am no subsidy model expert, but what they do is they learn from all the cohorts in the past. And so we know that we under-estimated the cost of the program in 2008 and we factor that into the calculation going forward.

So that now we have, as part of the subsidy estimate for 2013, I am sure there is some number for the recession losses that occurred. So is it quite possible that the $351.4 million is too high? Yes, it is quite possible. We will not know that until we get a few years down the road.

But as you heard the Administrator testify, the quality of the credits going into SBA today is much higher than it was. They use what they call a Small Business Predictability Score. So the credit scores of the borrower going in today are much higher than they were in years past. I would not be surprised that five or six years from now we sit back and look and say, Gee, we over-estimated the cost of the program today.

Chair LANDRIEU. And we do have the actuals here, and just for the record, in 2005, they were 1.5; in 2006, 1.3 instead of zero; in 2007, 1.3; 2008, 2.0; and 2009, 2.5 and 83/82. Okay. Is Senator Snowe coming?

Mr. WALKER. She is not. She is at the vote.

Chair LANDRIEU. She is not? Okay. All right. I am going to give you all one minute each to wrap up, starting with you, Ridgely, or 30 seconds to wrap up. I am sorry for the delay and the tight time frame, but I have got something and Senator Snowe is not coming back. Go ahead.

Mr. EVERS. I think that the net of it is that SCORE actually makes sense as an investment in a tough time, and the numbers that we are presenting to you are not numbers that we have come up with ourselves. They are the result of research that we have been the beneficiary of through Gallop. We can get you the hard data on that. These are real numbers.

As I look at this as a taxpayer, I love this. If I can put a dollar into something, get $57 back, and at the same time help strengthen the fabric of the local communities through a program like SCORE, great. And the only reason that is possible, and the thing that makes SCORE entirely different from everybody else, is the fact that all of our staff, other than 18 people in Herndon, are volunteers.

Our field staff, our field management staff are all volunteers. We have a regional vice president in the Southwest now who is a volunteer. That is a huge gift to the Government and to small business on the part of business people. And I think, to be perfectly candid, I think that we owe it to them to honor them with a budget that supports them, that allows us to underpin them so they can be as effective as possible. The bang for the buck is clear.

Chair LANDRIEU. Thank you.

Mr. Hurn.

Mr. HURN. Well, I would just say again, if subsidies are a concern, there are at least three things that we can do to bring the subsidy rates down. I think it is just responsible for the SBA to empower CDCs who our local experts for the SBA and who are involved and can be involved early in the process, as opposed to waiting until the end when Treasury gets involved far too late in the process.

That is a very simple thing, and I would urge the Committee to consider a pilot program to let CDCs participate in that.

The second thing I would say is, I really feel we need to extend the 504 refinance program. These are better performing loans than even regular 504s, in many cases, and if you review my written testimony, you will see why I make that argument. The FMLP is basically the—SBA has assumed a preferential risk in this situation while creating a secondary market in this program.

It is the only market that is actually meeting the needs of special purpose commercial properties out there, and has really shown great strides since both of these programs have gotten away from some of the delays that they had when they first were launched. So I would urge the Committee to consider both of these programs. Thank you.

Chair LANDRIEU. Thank you.

Mr. Shear.

Mr. SHEAR. I would like to thank you for inviting me. I fully agree with you that evaluation of these programs is just integral to looking at the cross-cutting issue of serving small businesses. We are collecting every piece of information we can that is available to try to inform those decisions in our July report.

We are also looking upon the agencies, including SBA, to collect information as part of managing their programs so they can better determine which programs are working the best and how strategically SBA, and SBA in partnership with other agencies, can better serve the small business community. So again, thank you.

Chair LANDRIEU. Mr. Wilkinson.

Mr. WILKINSON. I would just like to add, thanks for having me again today. Would close with, I am glad to hear that the U.S. Chamber has submitted a letter in support of the continued appropriation for this program. I know that the International Franchise Association has also sent in their letter of support.

And then from the NADCO testimony, their statement is, Due to the low cost of job creation under 504 and the high impact on the economy, NADCO supports the Administration's budget request for continued borrower fee relief through an appropriation. And, of course, from our testimony, NAGGL, also supports the continued appropriation. Thank you.

Chair LANDRIEU. Great. And I just want to recognize the head of the 504 trade association, Chris Crawford. Chris is in the audience, and we could have had you up on this panel. I am sorry, but thank you for your support of the program.

I think we will adjourn. The record will stay open for two weeks. We thank you all very much. It has been a very, very informative hearing. Meeting adjourned.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Items for the Record from Administrator Mills
Requested by Ranking Member Snowe

Item 1: Background numbers behind cohort years and default rates:

Numbers provided in attachment.

Item 2: Unemployment numbers

The SBA uses the macroeconomic performance projections for interest rates, GDP growth, and unemployment rates provided by OMB in the President's Economic Assumptions (PEA's).

Item 3: Information to understand the assumptions that were used to calculate the subsidy request based on future loan performances:

The SBA uses historical loan performance data to generate assumptions for the budget formulation models. Based on projections of future macroeconomic conditions and loan characteristics, we use the generated assumptions to project cash flows and calculate the subsidy rate for each program.

Item 4: Has SBA attempted to recover losses for loans that were written off at nearly $2 billion in the 504 program?

Yes, practically all of charged off 504 loans were referred to Treasury for offset and cross servicing collection.

Item 5: Were 5,000 eligible co-borrowers and guarantors and banks referred to Treasury for debt collection?

Yes, co-borrowers and guarantors were referred to Treasury for debt collection when the borrower was eligible for referral.

However, the referral system was not programmed to refer co-borrowers and guarantors when the borrower was not eligible for referral.

The SBA referral system is being updated to allow for the referral of co-borrowers and guarantors.

7(a) Purchases by Approval Year

Approval Year	# of 2009 Purchases	Gross Purchases 2009
Pre 2000	257	$ 53,385,213
2000	184	$ 39,915,404
2001	305	$ 49,075,701
2002	777	$ 91,043,384
2003	1,666	$ 138,892,771
2004	3,121	$ 277,585,792
2005	5,532	$ 558,620,451
2006	8,245	$ 903,406,556
2007	9,803	$ 964,181,899
2008	2,461	$ 239,138,232
2009	45	$ 920,178
2010	-	$ -
2011	-	$ -
Total:	**32,396**	**$ 3,316,165,581**

Approval Year	# of 2010 Purchases	Gross Purchases 2010
Pre 2000	209	$ 52,846,728
2000	179	$ 41,887,735
2001	232	$ 52,856,121
2002	498	$ 92,733,650
2003	1,242	$ 135,794,173
2004	2,359	$ 245,900,491
2005	4,392	$ 508,617,666
2006	7,272	$ 759,600,695
2007	8,639	$ 929,971,524
2008	3,778	$ 546,371,887
2009	680	$ 65,787,042
2010	22	$ 2,563,756
2011	-	$ -
Total:	**29,502**	**$ 3,434,931,468**

Approval Year	# of 2011 Purchases	Gross Purchases 2011
Pre 2000	127	$ 34,429,025
2000	73	$ 18,320,243
2001	132	$ 26,732,417
2002	201	$ 25,435,990
2003	603	$ 62,863,965
2004	1,461	$ 122,622,934
2005	2,687	$ 268,766,845
2006	4,291	$ 430,063,615
2007	5,944	$ 595,519,091
2008	3,352	$ 459,683,402
2009	1,228	$ 163,463,131
2010	340	$ 35,388,932
2011	13	$ 1,296,376
Total:	**20,452**	**$ 2,244,585,966**

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Question for Administrator Mills
Submitted by Chair Mary Landrieu

Question No. 1: Recognizing that the SBA is in the second lien position in the 504 loan program, how do you ensure the government's losses are minimized?

SBA holds the task of protecting taxpayer funds as one of its primary objectives. Over the last several years the SBA has improved its processing and procedures to minimize losses and maximize recoveries. Several important initiatives have been implemented that significantly impact the 504 loan program.

The first initiative took place in FY2007 when SBA centralized the liquidation of 504 loans from 68 district offices to 2 Commercial Loan Servicing Centers (CLSCs) located in Little Rock, Arkansas and Fresno, California. Centralization provided increased control and efficiencies for SBA and improved guidance for SBA Certified Development Companies (CDCs). In FY2010, as the liquidation portfolio was growing rapidly, SBA initiated a 504 liquidation improvement project to focus on re-evaluating 504 liquidation policies and procedures in order to improve efficiency and effectiveness, reduce losses and maximize recoveries. This was accomplished by adopting industry best practices and procedures which were incorporated into the center liquidation processes and an updated Standard Operating Procedure (SOP) manual governing liquidation (SOP 50 51). As a result of this project, the CLSCs established more specialized functional teams, and deployed an automated tracking tool and electronic/paperless processing system that improved the liquidation process by enabling the centers to more effectively manage the portfolio. SBA also has worked closely with CDCs during the project to educate and identify areas where CDC participation in the liquidation process would complement, and not duplicate, the work being done in the CLSCs. In addition, in FY2011 the Office of Capital Access and Office of General Counsel conducted a quality assurance review to determine if SBA was maximizing recovery in the centralized liquidation process. The review showed that SBA is making correct decisions on the protective bids in approximately 95% of the cases audited. The majority of the cases that were found to have incorrect decisions involved inaccurate real estate appraisals, where the property eventually sold for a price far higher than the appraised value used in the liquidation decision process.

The Agency 504 liquidation teams and the CDCs thoroughly review each loan as it enters liquidation to assess the background of the business, nature of liquidation, financial condition of *the obligors/guarantors and collateral securing the loan to develop a strategy for maximizing recovery. This information is summarized in a liquidation plan. Each liquidation plan is evaluated by the SBA with input from the CDCs to consider the strengths and weaknesses of various collection methods, ranging from workouts to enforced collection. The following methods for liquidation and recovery are used in the CLSCs: workouts; offer in compromise (OIC); short sale; note sale; foreclosure; litigation; administrative wage garnishment (AWG); and referral to the Treasury Department.*

Another initiative focused on increasing efficiency and mitigating the risk through strengthening SBA's quality control (QC) programs. SBA strongly believes that risk management at our Centers is a fluid process. We have initiated and continue to enhance a streamlined process whereby deficiency findings from the QC process, OIG audits, and SBA's Internal Control reviews are immediately incorporated into Center feedback, training, and process improvement. This activity occurs while working with other stakeholders within the Agency to ensure that program policies or procedures causing systemic issues are promptly identified and resolved.

With respect to recovery efforts and performance, we provide the following information:

SBA 504 liquidation improvements are evidenced by increased recovery dollars over the past several years. SBA recovery dollars on purchased 504 debentures increased 260%, from $35MM in FY09 to $129MM in FY11. FY12 504 recoveries through March 31, 2012 were $81MM and are on pace to reach more than $160MM for the fiscal year. Below is a breakdown of SBA annual recovery efforts:

Fiscal Year	***Recovery Dollars***
2009	*$35,829,339.34*
2010	*$97,027,801.69*
2011	*$129,097,618.92*
2012 thru 3/31/12	*$81,637,904.13*
Total:	***$343,592,664.08***

SBA Treasury referral activity for 504 loans has also increased in recent years. The FY12 referral figures below represent 504 Treasury referral activities over the past several years. SBA estimates that it will refer 2,580 obligors/guarantors in FY12.

Referral FY	***Loan Count***	***Obligor Count***
2009	*161*	*170*
2010	*2,247*	*2,429*
2011	*639*	*1,850*
2012 thru 3/31/12	*424*	*1,290*
Total:	***3,471***	***5,739***

The Agency anticipates even more Treasury referrals and associated recoveries as we work closely with Treasury to refine the referral process and criteria.

Question No. 2: How do SBA's technical assistance and counseling programs rank with the Agency's other programs in terms of number of small businesses participating in the program and can you explain why the Administration felt that a 10 percent cut in funding for these programs was appropriate?

> *While the SBA has made tough budget choices, we will continue to ensure our resource partners have the tools they need to support small business owners and the next generation of entrepreneurs. Even though budgets for counseling programs have decreased, SBA is still able to support mentoring, counseling and training for over 1 million entrepreneurs*

Question No. 3: What are the internal quality control and performance metrics that SBA uses to test the quality of the SBA programs and resource partners? I am interested specifically in the SBIC program, the SBDC program, and the WBCs.

> *With respect to the SBIC program, SBA uses a number of metrics to ensure quality and performance. Relative to SBA performance, we measure our output (e.g., number of licenses issued), the time to perform the output (e.g., months to license) and the percentage of the output that meets the performance metric (e.g., 80% within the 6 month time frame). We do this for a number of matters that we believe are important to our industry partners. With respect to industry, our primary measure of quality is capital impairment. However, we incorporate other measures into our evaluation of licensee performance. These measures may include things such as interest or leverage coverage,*

cash flow generated by the portfolio or the percentage of the portfolio that is performing.

We are working other measures into our analysis also. We are trying to more accurately track the composition of our managers that represent minorities or women and our efforts to attract them into the program. We do the same with respect to portfolio composition. From a financial standpoint we are trying to be more analytical in understanding the variables that correlate with fund performance. These variables might be fund size, percentage of equity investments, the timing and amount of distributions and relationship to industry benchmarks. This is an ongoing effort that will be enhanced when we implement our new web based data collection system.

With respect to SBDCs and WBCs, see attached matrix on oversight of programs.

Question No. 4: What changes have been made to the SBA's website since you became the Administrator? Who reviews the effectiveness of your website and Business USA? Do you solicit feedback from small business for either of these?

SBA.gov has been completely revamped and updated to help small businesses find the information they need to start or grow a business. We have made using interactive web tools, social media and blogs a focal point to engage with, and better meet the needs of small business owners.

While the SBA website has traditionally been an information-rich site, we wanted to make it easier for small business owners to navigate. So we launched a redesigned website in December of 2010 along with SBA Direct, a web tool with a variety of features that aim to help small businesses find local information so they can start-up, succeed and grow. Some of new features include:

- *Improved search functions to help business owners find relevant content faster than before*
- *Integrating the former Business.gov content into SBA.gov that collated information from other government agency sites*
- *Location-based maps to help users find local SBA resources and lenders*
- *Our interactive Community page that allows business owners to talk with one another and comment on issues*

The results are showing a positive effect. We now are consistently seeing over one million unique visitors a month since January 2012 and had a record 1.3 million visitors in March.

SBA hosts regular usability sessions with small business owners to solicit feedback on how they use the site and what they use it for so we can continue to make improvements and help entrepreneurs find content and information.

With the improved SBA.gov, business owners can access the answers they need, specific to their business profile, in an instant -- it truly presents the face of the future of SBA.

Going forward, SBA's web team will liaise with the BusinessUSA team to integrate best practices, web content and other online tools to further help with the building of that portal and ensure we are coordinating resources and tools, as well as avoiding duplicative work. Some of that work is already underway and we will continue to use feedback from customers to make BusinessUSA another tool to help small business owners find what they need from the federal government.

SBA Office of Entrepreneurial Development: Oversight of Programs

Program	Programmatic Review	District Office Review	Financial Review	Accreditation	Other/Notes
OSBDC Core Grants The Small Business Development Center Program is a nationwide network with more than 900 service centers, providing free one-on-one counseling and low cost training to existing and nascent small businesses. Each network is charged with meeting the needs of their service area, as well as meeting the statutory requirements of the program.	• At least every two years, OSBDC Program Managers conduct an onsite review of the Lead Center as well as some service centers, using their expert knowledge of the SBDCs within their portfolio, as well as the Project Officer's reports, as selection tools. • The Program Manager's expertise comes from ongoing performance analysis as well as continual communications and discussions with the SBDC Director, the local District Office relating to performance management and information derived as they address and implement correction of issues as they arise. • The Program Managers use the latest FEU report as well as the latest Accreditation Review	• Each year, the local SBA Project Officer conducts an onsite compliance review of the SBDC Lead Center and biennial reviews of the SBDC's service centers. This ensures compliance with the Notice of Award as well as to alert OSBDC Program Managers of any issues or previously cited items which have not been resolved. • A report is written and forwarded to the appropriate Program Manager after each review(s).	• Based on responses to a questionnaire, SBA's FEU conducts a risk analysis to determine which SBDCs must have an on-sight financial exam, which may have a desk exam, and which may have a self-certification, based on the review cycle. This assures that those SBDCs at highest risk are monitored more closely on an ongoing basis. The process is in completed in conjunction with the Program Manager's latest review as well as their input which incorporates both the Project Officer's review(s) and the latest Accreditation Review. • Each SBDC must have an onsite review, at a minimum, every third two year cycle.	• According to statute, the ASBDC is tasked with establishing the Accreditation criteria as well as conducting Accreditation reviews of each SBDC Network. This is accomplished via a contract with SBA. • Historically, reviews have been performed every four years. The process calls for an intense review of an SBDC using Malcolm Baldrige standards and requires the SBDC to fully engage using a thoroughly developed self-study of the SBDC Network. • The ASBDC Accreditation team then recommends a status to the accreditation committee and SBA as to whether a program: is outstanding in its performance (Accredited without conditions); is performing well but has areas for improvement (Accredited with Conditions); has a few major issues which must be addressed (suspended) or is performing at a risk to the government (denied). These reviews are critical to SBA's Program oversight.	• Each of these four oversight capacities independently verify the satisfactory operation of the SBDC Network and also overlap to ensure a continuous and vigorous oversight and management process of the federal funds allocated to the SBDC Program. • This multi review process assures SBA that it has adequate monitoring and control over the performance of the Program. Because each SBDC is unique in its funding level, market needs, geographic size and location as well as its leadership, these review methods have determined, over time, the best methodology to ensure the overall quality of each of the individual SBDCs. • The SBDCs are charged with meeting the needs of their local business communities and are funded based on population and the smaller entities are provided funds at a minimum funding level, which could be well above their population based funding amount. SBDCs must match the funding provided on a 1:1 basis –

Program	Programmatic Review	District Office Review	Financial Review	Accreditation	Other/Notes
	when evaluating the SBDC's on-going performance.				some SBDCs are fortunate and their state governments provide that match or more, some seek funding from foundations, and philanthropic sources. • OSBDC each year establishes goals and made the decision several years ago to switch from output measures to outcome measures to better determine how effective the program is. This has helped in our assessment of the networks; however, frequently funding partners demand outputs as a condition of their funding and this certainly affects the performance of a network when looking at outcomes. • There are so many variables from network to network that it is near impossible to compare one network's performance to that of another.
WBC Grants The WBC program currently operates with two types of grants: initial grants and renewable grants. The Initial grant is available to	• For initial applications and renewal applications, at least two experienced Program Managers review each application. Each application must	• District Office Technical Representatives (DOTRs) conduct an onsite assessment of each WBC and submit semi-annual reports to	• Once a proposal or application has received an eligible score, grants managers review the budget, financial documents and ensure that the proposed spending is in line with the statute and		• Cure Letters: Upon identifying programmatic deficiencies or receiving a financial exam report with findings, OWBO will issues a cure letter identifying the deficiencies and requiring the WBC to provide a plan to resolve the deficiencies. While most of

Program	Programmatic Review	District Office Review	Financial Review	Accreditation	Other/Notes
organizations seeking to participate in the WBC program for the first time. These grants are for a five year period. During the first 2 years, WBCs must match 1 non-Federal dollar for each 2 Federal dollars. During the remaining 3 years, the WBCs must match each Federal dollar with a non-Federal dollar. Renewable grants are for a three year period.	include a technical proposal along with planned milestones. The proposal must also include a three or five year plan identifying how the WBC will serve the location, particularly low and moderate income women. Applications are scored on a number of key factors. Only those that receive a favorable score are recommended for funding. • Each WBC must submit a quarterly narrative to OWBO documenting achievement of milestones as identified in the proposal or annual work plan. The narratives must also include success stories and identify any potential challenges including turn-over in staff. WBCs must	OWBO. • These reports allow verify that the WBCs are actually achieving the results identified in the quarterly reports. Program managers review the DOTR reports and verify that the WBCs are in compliance with program requirements.	regulations. • Grantees will be issued a Notification with a zero budget if there are missing documents. WBC grantees must have a signed and approved budget before charging costs to the grant. • In the past three years, new grantees also have a pre-award financial review focusing on internal controls to insure the host organization can properly manage the grant. • Along with the quarterly narratives, WBCs must submit quarterly spending and financial status reports, including match fund. Grants managers insure that spending is in line with the budget and in line with approved cost categories. • WBCs receive three quarters of advanced funds and the final quarter in the form of a		the deficiencies are based on week internal controls or lack of policies, some may result from lacking support documentation for expenditures. In these cases, OWBO recoups the funds from the WBCs. Often, the WBCs can provide documentation in their response to mitigate the recoupment. The WBCs have 30 days to resolve all findings or identify a reasonable action plan to do so. • Second Cure Letters: If the WBC has made substantial progress, but still has outstanding issues, SBA will issue a second cure letter providing an additional 15 days to resolve the remaining issues. • Demand Letters: When a WBC has made little or no progress to resolve the deficiencies or has refused to respond to a cure letter, OWBO issues a demand letter to resolve the issues, including payment of any required recoupments.

Program	Programmatic Review	District Office Review	Financial Review	Accreditation	Other/Notes
	update OED's EDMIS system for every client counseled and every training session held. • Program managers review the narratives along with the quarterly EDMIS data to determine if the WBC is on track with meeting the milestones and delivery of service. • Two times a year, WBCs are required to submit the 4th quarter narrative and ensure that EDMIS is up to date within 30 days of the end of the project year. Program managers review the final reports from both the WBC and the DOTRs along with each WBC's EDMIS data. • For each grant, there are option years depending on the stage of the WBC (Initial or		reimbursement. • On the finance side, the grants management team conducts a financial reconciliation before releasing the third quarter funds. This helps to ensure that WBCs are meeting the match requirements and appropriately spending funds. Third quarter advancements are delayed if the WBC is not in compliance either programmatically or financially. • Fourth quarter funds are only available as a reimbursement. The Grants managers ensure that all match funds have been accounted for and that all financial reports have been submitted and reconciled prior to releasing the 4th quarter payments. This ensures that Federal funds are being used according to the Statute, Regulations,		

Program	Programmatic Review	District Office Review	Financial Review	Accreditation	Other/Notes
	Renewal). Each WBC must submit an annual work plan that is similar in nature to the initial application, but includes any updated information from the past year. The Program managers review the work plans in a similar manner as the proposals. • Although OWBO would welcome the ability to conduct annual onsite programmatic reviews by the program managers, funding does not make this practical. However, each program manager will go out to conduct an onsite review to generally 2 WBCs per year, focusing on the WBCs that have had challenges identified in their reports or major staff changes. This review also includes walking new WBC		and each Notice of Award. • The grants managers use the same process to review the annual work plans as they use for the proposals. • Prior to 2010, onsite financial exams were limited to only those WBCs identified as having significant financial problems. • Beginning in 2010, OWBO established a three year goal of conducting an onsite financial exam of every WBC. By the end of FY2012, every WBC will have been reviewed at least once. These reviews look at all the WBC expenditures, internal controls, and WBC procedures. Often WBCs are found to at least have minor issues. OWBO uses a series of Actions as described below to bring the WBCs back into compliance.		

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Question for Administrator Mills
Submitted by Senator Tom Harkin

Question No. 1: Do you have the latest breakdown of graduates of the Emerging Leaders program by demographic and size of business?

- All of the businesses in the Emerging Leaders program are small businesses.
- 56% of Emerging Leaders businesses are located in a low- to moderate-income census tract.
- 71% of Emerging Leaders businesses are minority-owned.
    - 37% Black
    - 12% Native American/Alaskan Native
    - 10% Hispanic/Latino
    - 6% Asian
    - 6% Mixed/Other

Question No. 2: Do you have long term data on the success of Emerging Leaders graduates and follow-up they need after graduation?

SBA tracks graduates from their inaugural class [see below]. Participants are introduced and referred to resource partners for follow-on support.
Since 2008 Emerging Leaders businesses have:

- Accessed $26 million in new financing.
- Obtained $450 million in government contracts.
- Despite the economic challenges in recent years, over 50% of businesses have created new jobs in their communities. In 2010, the average annual salary for each net new job was $40,575.
- In 2010, 57% of the businesses increased their revenue. The average increase was 70%.
- 85% of the businesses were highly satisfied or satisfied with their experience in the initiative.

<u>Question No. 3</u>: Though not part of the budget request, does SBA plan to fund Emerging Leaders in FY13 and beyond?

Yes, SBA intends to fund the initiative in FY13. Emerging Leaders plays an essential role within the circle of SBA resources and partners. It accelerates SBA's delivery of products and services especially in underserved markets to Urban and Native American small employer businesses with high growth potential. During the first two stages of small business growth (existence and survival) businesses require tactical support to survive -- such as the technical assistance offered by SCORE and WBCs. This next stage training for the executive level decision-maker and technical assistance provides leadership and operational strategies and peer to peer training to continue growth, with strategic support and resources. The initiative has resonated with the business community with many influential business leaders, local government, economic development organizations, finance and acquisition providers engaging with participants and integrating them into other business opportunities.

<u>Question No. 4</u>: If Emerging Leaders was eliminated, what programs does SBA have in place to reach existing minority/urban/women small business owners who need help getting to the next level?

Emerging Leaders is a synchronized national training program which deploys and instructs a very targeted training curriculum for emerging, in-business companies in Urban and Native communities which have high-potential to grow and create jobs. This national program provides business leaders with in-depth instruction, very similar to an executive MBA program. If Emerging Leaders were eliminated, small business owners would be able to access counseling via SBA's resource partner network.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Question for Administrator Mills
Submitted by Senator Mark Pryor

Small Business Development Centers

The SBA FY 2013 budget request for Small Business Development Centers (SBDCs) is about $102 million. This amount is about $10 million less than last year. The Arkansas Small Business and Technology Development Center has been very creative in using SBDC funding. Their clients have created 744 new jobs, increased sales by 13.8% and obtained more than $37.9 million in financing. The Arkansas SBTDC has returned $1.63 for every dollar in funding.

- At a time when the Federal Government is trying to stimulate more small business job creation, why is SBA cutting funding for a program that has a successful track record?

While the SBA has made tough budget choices, we will continue to ensure that our resource partners have the tools they need to support small business owners and the next generation of entrepreneurs. Even though budgets for counseling programs have decreased, SBA is still able to support mentoring, counseling and training for over 1 million entrepreneurs.

Federal and State Technology Partnership (FAST)

The purpose of the FAST program is to strengthen the technological competitiveness of small business concerns in every state. The Arkansas Small Business and Technology Development Center used the FAST program to significantly increase the number of SBIR and STTR submissions and awards. In 2011, this funding allowed the Arkansas SBTDC to assist 17 Arkansas small businesses. The FY 2013 budget requested no new funding for the FAST Program

- Why is the SBA cancelling the FAST Program funding?

We are happy to hear about the success of the FAST program in Arkansas. The program has assisted other states and companies across the country. SBA recognizes the value of the FAST Program; however like other agencies, SBA must make tough decisions regarding the allocation of its resources. Unfortunately, for FY 13, as a result of these tough budget choices, SBA is *unable to request funding for the FAST Program. We appreciate and share your commitment to the SBIR and STTR Programs and SBA is doing all it can to foster the development of innovative small businesses in Arkansas, and across the nation.*

- Would a modest amount of funding encourage more SBDCs to become accredited for technology?

The intent of the technology accreditation was to encourage the commercialization of research at a time when this was not a common occurrence. Currently, most SBDCs provide commercialization assistance. The technology accreditation is costly to obtain and maintain and may not necessarily change the level of commercialization services that the SBDC currently provides.

7(a) Loan Guarantee Program

The SBA 7(a) program guarantees loans made by lenders to small businesses for general business purposes.

- Why is the average loan size bigger?

Prior to the recession, approximately 80% of 7(a) loans were under $150,000 and a larger percentage of those loans were in the $50,000 and below space that lenders could provide to startups by checking stated income and personal consumer credit scores through their delegated authority under the SBA Express programs. With the onset of the recession, those loans, made primarily by a small number of banks, performed poorly. So today, we have seen a significant decline in loans under $50,000 because of the performance of those cohorts. In addition, with the passage of the American Recovery and Reinvestment Act in February 2009, SBA offered lenders higher guaranty percentages on eligible 7(a) loans and temporarily eliminated the up-front guaranty fees on eligible 7(a) loans. Specifically, the percentage of SBA guaranty on eligible 7(a) loans over $150,000 was increased from 75 to 90 percent. When the Small Business Jobs Act was signed in September of 2010, these higher percentages of guaranty and temporary elimination of fees by SBA were continued. In addition, the dollar size limit on a single 7(a) loan was increased from $2,000,000 to $5,000,000. These changes contributed to resurgence in overall lending to small businesses and increased the average loan size significantly.

- Why is the SBA making fewer small amount 7(a) loans than in years past?

Between 2005 and 2007, SBA participating lenders approved a greater number of small dollar loans. These small dollar loans, however, were underwritten largely using stated income and personal consumer credit scores. As described above, smaller loans made with these underwriting practices had higher default rates. SBA lenders responded by discontinuing the use of this technique, which reduced the number of small dollar loans. SBA has rolled out a *number of measures to address the decline in small loan making. These include two loan initiatives implemented last year – Small Loan Advantage and Community Advantage – that are aimed at increasing the number of lower dollar SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities.*

504 Loan Guarantee Program Subsidy

Under the 504 loan guarantee program, fees are charged to borrowers and lenders to cover the cost of the program in order to drive the subsidy rate to zero. Despite the statutory mandate to maintain a zero subsidy, Congress also limited the size of fees that the SBA could impose on CDCs and borrowers. Economic conditions have made it impossible for the SBA to continue operating the CDC Program without an appropriation. The SBA requested a $113 million dollar subsidy to cover $6 billion in lending.

- When do you think the SBA can return to a zero subsidy rate for the 504 program?

The 504 subsidy rate is driven by historical program performance combined with macroeconomic forecasts provided by OMB on employment and GDP projections. Increased purchases combined with decreased recoveries over the past few years, along with a sustained high unemployment rate, have led to an increase in the projected cost of the program. SBA has raised program fees up to the statutory maximum. However, the fees are not currently high enough to fully offset program costs. In order to bring the 504 program back to zero subsidy, one of two things is needed—an increase in the statutory fee maximum or an improvement in 504 loan performance and the overall economy. At this point in our economic recovery, the Administration does not believe we should raise fees on small businesses. Therefore, we expect the 504 program will return to zero subsidy when loan performance and the overall economy improve.

Surety Bond

Small federal contractors, particularly in the construction industry, are required to post bonds in order to protect the federal government against the failure to complete a project. Title IV of the Small Business Investment Act of 1958 authorizes the SBA to reimburse surety bond writers for up to 90 percent of the losses if a small business contractor defaults on a contract to which a surety issued a bond. It has been proposed that allowing the general contractor to take out the surety bond instead of each of subcontractors could save a lot of money on government contracts?

- What do you think of the idea of letting the general contractor take out the surety bond?

A prime or general contractor is required by the Miller Act to obtain a surety bond on any federal construction contract valued at $150,000 or more. The cost of the bond is included in the overall price of the contract. Whether or not a subcontractor is required to obtain a bond is determined by the prime contractor. Such factors as the nature, complexity and value of the subcontracted work are considered by the prime contractor in making this determination. If a subcontractor is required to obtain a bond, the cost of the bond would be passed on in the subcontract price. If the prime contractor were to absorb the cost of multiple subcontract bonds, the cost would similarly be passed along in the final contract price. In short, whether each prime and subcontractor pays for their own bond, or the prime contractor absorbs the cost of all bonds, we would expect there to be no net savings to the Government.

- Would SBA need legislation to do this?

SBA would need a better understanding of how this proposal would work in order to determine whether additional legislation would be needed.

Recovery of Bad Loans

Christopher Hurn is going to testify on the second panel about empowering Certified Development Companies (CDCs) to pursue recoveries on their SBA 504 loans. According to his written testimony, the SBA wrote off $1.75 billion of bad loans in the past three years. In some cases the CDC's have recovered and returned to the SBA millions of dollars on loans where the SBA did not see fit to defend the government's position. The American people have made it clear they expect us to cut spending and maximize every dollar of our federal programs, so these numbers are alarming.

- What is the SBA doing to minimize these losses and maximize potential recoveries?

SBA holds the task of protecting taxpayer funds as one of its primary objectives. Over the last several years the SBA has improved its processing and procedures to minimize losses and maximize recoveries. Several important initiatives have been implemented that significantly impact the 504 loan program.

The first initiative took place in FY2007 when SBA centralized the liquidation of 504 loans from 68 district offices to 2 Commercial Loan Servicing Centers (CLSCs) located in Little Rock, Arkansas and Fresno, California. Centralization provided increased control and efficiencies for SBA and improved guidance for SBA Certified Development Companies (CDCs). In FY2010, as the liquidation portfolio was growing rapidly, SBA initiated a 504 liquidation improvement project to focus on re-evaluating 504 liquidation policies and procedures in order to improve *efficiency and effectiveness, reduce losses and maximize recoveries. This was accomplished by adopting industry best practices and procedures which were incorporated into the center liquidation processes and an updated Standard Operating Procedure (SOP) manual governing liquidation (SOP 50 51). As a result of this project, the CLSCs established more specialized functional teams, and deployed an automated tracking tool and electronic/paperless processing system that improved the liquidation process by enabling the centers to more effectively manage the portfolio. SBA also has worked closely with CDCs during the project to educate and identify areas where CDC participation in the liquidation process would complement, and not duplicate, the work being done in the CLSCs. In addition, in FY2011 the Office of Capital Access and Office of General Counsel conducted a quality assurance review to determine if SBA was maximizing recovery in the centralized liquidation process. The review showed that SBA is making correct decisions on the protective bids in approximately 95% of the cases audited. The majority of the cases that were found to have incorrect decisions involved inaccurate real estate appraisals, where the property eventually sold for a price far higher than the appraised value used in the liquidation decision process.*

The Agency 504 liquidation teams and the CDCs thoroughly review each loan as it enters liquidation to assess the background of the business, nature of liquidation, financial condition of the obligors/guarantors and collateral securing the loan to develop a strategy for maximizing recovery. This information is summarized in a liquidation plan. Each liquidation plan is evaluated by the SBA with input from the CDCs to consider the strengths and weaknesses of various collection methods, ranging from workouts to enforced collection. The following methods for liquidation and recovery are used in the CLSCs: workouts; offer in compromise (OIC); short sale; note sale; foreclosure; litigation; administrative wage garnishment (AWG); and referral to the Treasury Department.

Another initiative focused on increasing efficiency and mitigating the risk through strengthening SBA's quality control (QC) programs. SBA strongly believes that risk management at our Centers is a fluid process. We have initiated and continue to enhance a streamlined process whereby deficiency findings from the QC process, OIG audits, and SBA's Internal Control reviews are immediately incorporated into Center feedback, training, and process improvement. This activity occurs while working with other stakeholders within the Agency to ensure that program policies or procedures causing systemic issues are promptly identified and resolved.

With respect to recovery efforts and performance, we provide the following information:

SBA 504 liquidation improvements are evidenced by increased recovery dollars over the past several years. SBA recovery dollars on purchased 504 debentures increased 260%, from $35MM in FY09 to $129MM in FY11. FY12 504 recoveries through March 31, 2012 were $81MM and are on pace to reach more than $160MM for the fiscal year. Below is a breakdown of SBA annual recovery efforts:

Fiscal Year	*Recovery Dollars*
2009	*$35,829,339.34*
2010	*$97,027,801.69*
2011	*$129,097,618.92*
2012 thru 3/31/12	*$81,637,904.13*
Total:	***$343,592,664.08***

SBA Treasury referral activity for 504 loans has also increased in recent years. The FY12 referral figures below represent 504 Treasury referral activities over the past several years. SBA estimates that it will refer 2,580 obligors/guarantors in FY12.

Referral FY	*Loan Count*	*Obligor Count*
2009	*161*	*170*
2010	*2,247*	*2,429*
2011	*639*	*1,850*
2012 thru 3/31/12	*424*	*1,290*
Total:	***3,471***	***5,739***

The Agency anticipates even more Treasury referrals and associated recoveries as we work closely with Treasury to refine the referral process and criteria.

- Will the SBA authorize the CDCs to make recoveries in the 504 loan program?

SBA will continue to work with CDCs in its liquidation efforts. As indicated above, those CDCs that participate in the PCLP and Authorized CDC Liquidator (ACL) programs have authority for liquidating all of the 504 loans in their portfolios. With some restrictions, these PCLP/ACL CDCs have unilateral authority to take all necessary actions to liquidate 504 loans. Such unilateral actions consist of deferments and workouts, and approval of short sales for recovery *proceeds, as well as other liquidation efforts to obtain the best recovery based on their recommendations. Offers in compromise (OIC's) need prior SBA approval.*

- What consumer safeguards need to be put in place if the CDCs are allowed to act as SBA's agent?

SBA oversees CDC servicing and liquidation activities when the CDC is acting as SBA's agent.

HUBZone Program

The HUBZone program has been cited as a program that is either at risk of fraud or unable to be measured.

- Is the program itself high risk?

No, the program is not at high risk. The HUBZone Program has implemented a number of initiatives that have reduced fraud, waste and abuse. From FY2009 through FY2011 an average of 1000 site visits have been made each year on firms in the HUBZone portfolio. Beginning in FY2009 following the GAO Reports on the HUBZone Program, all HUBZone program applicants have undergone a full documentation process to get HUBZone certified. Beginning in FY2011 and continuing in FY2012, the HUBZone Program has initiated and implemented a Legacy Portfolio Review initiative where HUBZone certified firms who have not received a full document review, receive such a review. These and other initiatives have resulted in the decertification of ineligible firms and have reduced the risk of fraud substantially.

- Is it necessary to put additional oversight in place to ensure such programs are being run efficiently and in a cost-effective manner?

SBA continues to strengthen the small businesses' ability to compete and win contracts with major military and civilian Federal agencies while combating waste, abuse, and fraud. For example, currently there is duplication of data and functionality between the HUBZone Certification and Tracking System and the Business Development Management Information System. Although small businesses may apply to both programs, neither system has the capability to communicate or share that information in a collaborative environment. SBA is developing a flexible and scalable solution that addresses automation of manual processes, evolved business processes, and new regulation codes. SBA's goal is to provide a single portal solution that delivers a one stop shop for applicants and certified firms relative to the Business Development and HUBZone Program; reduces fraud, waste, and abuse; and supports additional business processes.

- Does the SBA have the resources to measure the outcomes on a continuing basis?

The HUBZone program provides outcome measures on a continuing basis on its certification, program examination, recertification, protests and special initiatives.

- If not, is there another reason SBA resources are not being used to develop appropriate measurement standards?

As stated above, the HUBZone program provides outcome measures on a continuing basis.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Question for Dr. Winslow Sargeant
Submitted by Senator Mark Pryor

In FY 2012, the SBA Office of Advocacy was funded at $9.1 million. The Office of Advocacy budget request for fiscal year 2013 is $8.9 million. Advocacy is also receiving at no cost support from SBA for office space, rent, utilities, telecommunications, etc.

- When you combine Advocacy' $8.9 million budget request with the additional free support from SBA, would Advocacy receive more or less resources in FY2013 than in FY2012?

Advocacy response:

SBA's FY 2013 Congressional Budget Justification document (Table 10, page 22) shows the total anticipated costs for Advocacy in both FY 2012 and FY 2013, including the office's direct appropriation and estimated additional costs for overhead not being charged to Advocacy's appropriation, but being provided by SBA. In FY 2012, the currently enacted level for all costs is $12.81 million, and for FY 2013 the equivalent budget request is for $12.918 million. The FY 2013 request is for $108,000 more than the enacted FY 2012 level when overhead expenses are added to Advocacy's own appropriation.

The Dodd-Frank Wall Street Reform Act required the Consumer Financial Protection Bureau (CFPB) to conduct SBREFA panels. I understand that CFPB recently held their first panel.

- How is the CFBP complying with the Dodd-Frank Act requirement?

Advocacy response:

The CFPB is working very hard to comply with the requirement that it conduct SBREFA panels. Several of the CFPB's employees attended an Advocacy training on the Regulatory Flexibility Act in order to understand the panel process. To date, the CFPB has convened two panels, and one of the panels recently completed. The CFPB is also working hard to meet the statutory deadlines imposed by the Dodd-Frank Act.

- Has the Office of Advocacy had any problems working with CFPB on conducting these panels?

Advocacy response:

No. CFPB has worked closely with Advocacy in assembling small entity representatives and in drafting the panel documents. Advocacy believes that the cooperative work relationship will continue.

- Does Advocacy have sufficient resources to staff CFPB SBREFA panels in addition to Advocacy' previous workload?

Advocacy response:

As of now, yes. With one panel complete, we are actively working on another CFPB panel now, and are expecting a third soon. Advocacy will continue to monitor how many and when new CFPB panels will be announced. A series of additional panels will be forthcoming due to provisions of the Dodd-Frank legislation.

United States Senate Committee on Small Business and Entrepreneurship
Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Question for Dr. Winslow Sargeant
Submitted by Senator Jerry Moran

According to OMB, federal agencies produced a cost-benefit analysis for only 18 of the 66 major rules proposed in FY2010. In my view, that statistic is one of many that illustrates the need for all federal agencies, including the independent regulatory agencies, to conduct a cost-benefit analysis of proposed regulation. Senator Warner and I introduced legislation called the Startup Act that, among other things, requires all federal agencies to conduct a cost-benefit analysis of all proposed major rules and requires federal agencies to consider the effect of new major rules on startups. How many of the major rules proposed in FY2011 received a cost-benefit analysis?

Advocacy response:

Advocacy does not track cost-benefit analyses as outlined in Executive Order 12866. Under EO12866, this function is performed by OMB's Office of Information and Regulatory Affairs.

United States Senate
Committee on Small Business and Entrepreneurship

Hearing on March 29, 2012

"The FY 2013 Budget Request for the Small Business Administration"

Questions for William Shear
Submitted by Chair Mary Landrieu

<u>Question No. 1</u>: As discussed in the hearing, the GAO reports on duplication and overlap of small business programs have gained a lot of attention and some members of Congress have used GAO's reports as a rationale for eliminating some of the programs GAO has listed in order to cut up to $5 billion out of the nation's spending. To name one example, an amendment (Amdt #273) was filed during the 2011 debate on S. 493, the SBIR/STTR Reauthorization Act, to eliminate $5 billion in government spending based on GAO Report 11-318SP.

- **In reference to GAO Report 11-318SP, how many programs on that list would need to be eliminated in order to reach the $5 billion in savings?**

  In GAO-11-318SP, GAO identified 80 economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA) and the Small Business Administration (SBA)—whose design appeared to overlap with that of at least one other program in terms of the economic development activities that they are authorized to fund. Funding provided for these 80 programs in fiscal year 2010 amounted to $6.5 billion, of which about $3.2 billion was for economic development efforts, largely in the form of grants, loan guarantees, and direct loans. Eliminating the total amount of funding that these 80 programs provided for economic development efforts in fiscal year 2010 (about $3.2 billion) would not achieve the $5 billion in savings.

- **Please name the programs.**

  See enclosure I for a list of the 80 programs identified in GAO-11-318SP.

- **Based on GAO's reports, if 7(a) loans overlap with rural loans at USDA because some 7(a) loans go to businesses in rural areas, does GAO consider that overlap or duplicative?**

  GAO has defined this as overlap—programs that have similar goals, are engaged in similar strategies and activities to achieve those goals, or target similar beneficiaries. For example, USDA's Business and Industry Loans program is one of nine programs the agency administers that support entrepreneurs through financial assistance in the form of grants and loans; SBA's 7(a) Loan program is 1 of 10 programs the agency administers that support entrepreneurs through such assistance. (GAO has defined duplication as two or more agencies or programs that are engaged in the same activities or provide the same services to the same beneficiaries.)

- **And, instead of possibly merging them, if that made sense, we'd need to get rid of both loan programs to reach those savings of $5 billion. Is this what GAO's objective is?**

As discussed earlier, the 80 programs identified had a fiscal year 2010 funding level of $3.2 billion for economic development efforts. GAO's objectives in carrying out this mandated work (Section 21 of Public Law 111-139) was to (1) identify federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, the actions needed to address such conditions, and the potential financial and other benefits of doing so; and (2) highlight opportunities for additional potential savings or increased revenues. This provision also requires GAO to identify specific areas where Congress may wish to cancel budget authority it has previously provided—a process known as rescission. To date, GAO's work has not identified a basis for proposing specific funding rescissions.

- **Which of the programs on GAO's report list have been measured and by whom to say they are not effective?**

  In GAO-12-342SP, we focused our analysis on 53 of the 80 economic development programs at Commerce, HUD, USDA, and SBA that fund entrepreneurial assistance. We reported that for 39 of the 53 programs, the four agencies have either never conducted a performance evaluation or have conducted only one in the past decade. We have collected information on any studies conducted or commissioned by the agencies evaluating the effectiveness of these programs and plan to determine reasons why the agencies do not conduct more routine evaluations of these programs.

<u>Question No. 2</u>: **In GAO Report 120601T, the updated report from the one used during the SBIR debate, there are 53 programs identified as overlapping or duplicative, with a total cost of $5 billion.**

- **To realize $5 billion in savings, would all of the programs need to be eliminated?**

  As noted in GAO-12-601T, the total funding provided for the 53 programs at SBA, Commerce, HUD, and USDA that fund entrepreneurial assistance amounted to about $5.6 billion in fiscal year 2010, of which about $2.6 billion was for economic development efforts. We also noted that these programs typically fund a variety of activities in addition to supporting entrepreneurs. Eliminating the total amount of funding that these 53 programs provided for economic development efforts in fiscal year 2010 (about $2.6 billion) would not achieve the $5 billion in savings.

- **Would GAO consider elimination of all of those programs to be helpful to our economy and small businesses?**

  As in GAO's 2011 report, GAO's 2012 annual report does not identify economic development programs that should be eliminated. However, before a program is eliminated, trade-offs would have to be considered including the impact on the economy and small businesses.

- **Even though the National Academy of Sciences' National Research Council did a five-year study on the largest of the SBIR and STTR programs, and found them effective and meeting Congressional intent, the GAO report lists the SBIR and STTR programs as duplicative. With which programs do they overlap and how?**

  GAO has not found the SBIR and STTR programs to be duplicative of other entrepreneurial assistance programs. However, our analysis revealed overlap among many of the 53 programs based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. For example, 33 programs distributed across the four agencies support entrepreneurs through financial assistance in the form of grants and loans—including SBA's SBIR and STTR programs. Other programs that provide financial assistance include Commerce's Economic Adjustment Assistance, HUD's Rural Innovation Fund, and USDA's Business and Industry Loans. The National Academy's study is one of the evaluations that we have included in our ongoing analysis. However, it does not address the issue of duplication.

- **Who requested the reports on duplication and why?**

  Section 21 of Public Law 111-139, enacted in February 2010, requires GAO to conduct routine investigations to identify federal programs, agencies, offices, and initiatives with duplicative goals and activities within departments and governmentwide and to report on its findings.

Question No. 3: **Many programs that appear to offer the same type of service, in actuality, cater to very different and unique needs of particular types of businesses or business owners. For instance, while an area WBC and SCORE offer similar services, WBCs may tend to focus on startups while SCORE focuses more on established businesses, and these different focuses often vary naturally depending on the need and location of the programs offered.**

- **To that end, is the GAO able to evaluate how successful these programs are in leveraging the services of other programs and how effective these programs would be if other similar programs were to suddenly become unavailable?**

  We have not done the work necessary to answer this question.

- **Are there any volunteer-based programs, other than SCORE, included in GAO's assessment of federally supported small business programs and services?**

  While various non-profit entities participate in the delivery of federal small business programs and services, we consider SCORE as the only volunteer-based program included in the 53 programs we identified that fund entrepreneurial assistance.

Enclosure I

Economic Development Programs Identified in GAO-11-318SP

	Program Name	Fiscal Year 2010 Enacted Appropriation
Department of Commerce		
1	Community Trade Adjustment Assistance	0
2	Grants for Public Works and Economic Development Facilities	158,930,000
3	Economic Development/Support for Planning Organizations	31,391,000
4	Economic Development/Technical Assistance	9,800,000
5	Economic Adjustment Assistance	45,270,000
6	Research and Evaluation Program	1,963,000
7	Trade Adjustment Assistance	18,987,000
8	Global Climate Change Mitigation Incentive Fund	25,000,000
9	Minority Business Enterprise Centers	8,601,193
10	Native American Business Enterprise Centers	1,351,500
11	Minority Business Opportunity Center	1,512,500
Department of Agriculture		
12	Empowerment Zones	500,000
13	Woody Biomass Utilization Grant Program	5,000,000
14.	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program/Rural Business Entrepreneur Development Initiative/BISNET	0
15	Distance Learning and Telemedicine Loans & Grants	33,300,000
16	Rural Telephone Loans and Loan Guarantees	0
17	Public Television Station Digital Transition Grants	4,500,000
18	Community Connect Program	18,000,000
19	Rural Broadband Access Loans and Loan Guarantees	29,000,000
20	Rural Electrification Loans and Loan Guarantees	0
21	Assistance to High Energy Cost Rural Communities	17,500,000
22	Denali Commission Loans and Grants	0
23	State Bulk Fuel Revolving Fund Grants	0
24	Small Business Innovation Research	22,000,000
25	Biomass Research and Development Initiative Competitive Grants Program	0
26	Schools and Roads—Grants to States	0
27	Schools and Roads—Grants to Counties	0
28	Community Facilities Loans & Grants	36,800,000
29	Water and Waste Disposal Loans & Grants (Section 306C)	489,100,000
30	Water and Waste Disposal Systems for Rural Communities	0
31	Emergency Community Water Assistance Grants	13,000,000
32	Technical Assistance and Training Grants	19,500,000
33	Grant Program to Establish a Fund for Financing Water and Waste Water Projects	500,000
34	Solid Waste Management Grants	3,400,000

35	Value Added Producer Grants	19,400,000
36	Biobased Products and Bioenergy Program	2,000,000
37	Agriculture Innovation Center	0
38	Small Socially-Disadvantaged Producer Grants	3,500,000
39	Intermediary Re-lending	8,500,000
40	Business and Industry Loans	52,900,000
41	Rural Business Enterprise Grants	38,700,000
42	Rural Cooperative Development Grants	8,300,000
43	Rural Business Opportunity Grants	2,500,000
44	Rural Economic Development Loans and Grants	0
45	Biorefinery Assistance Program	245,000,000
46	Rural Energy for America Program	99,400,000
47	Rural Microentrepreneur Assistance Program	9,000,000
Department of Housing and Urban and Development		
48	CDBG/Entitlement Grants	2,760,223,970
49	CDBG/Special Purpose/Insular Areas	6,930,000
50	CDBG/States	1,176,594,747
51	CDBG/Non-entitlement CDBG Grants in Hawaii	5,791,797
52	CDBG/Brownfields Economic Development Initiative	17,500,000
53	CDBG/Section 108 Loan Guarantees	6,000,000
54	Section 4 Capacity Building for Affordable Housing and Community Development	50,000,000
55	Rural Innovation Fund	25,000,000
56	CDBG Disaster Recovery Grants	100,000,000
57	Indian CDBG	65,000,000
58	Hispanic Serving Institutions Assisting Communities	6,250,000
59	Alaska Native/Native Hawaiian Institutions Assisting Communities	3,265,000
60	Sustainable Communities Regional Planning Grant Program	98,000,000
61	Community Challenge Grant Program	40,000,000
Small Business Administration		
62	8(a) Business Development Program	61,765,000
63	7(j) Technical Assistance	6,580,000
64	Procurement Assistance to Small Businesses	2,753,000
65	Small Business Investment Companies	217,274,000
66	7(a) Loan Program	99,589,000
67	Surety Bond Guarantee Program	5,506,000
68	SCORE	11,135,000
69	Small Business Development Centers	129,426,000
70	504 Loan Program	36,049,000
71	Office of Women's Business Ownership	23,525,000
72	Veterans' Businesses Outreach Centers	7,644,000
73	Microloan Program	27,328,000
74	PRIME	40,076,000
75	New Markets Venture Capital Program	315,000

76	7(a) Export Loan Guarantees	983,000
77	HUBZone	11,653,000
78	Small Business Technology Transfer Program	585,000
79	Small Business Innovation Research Program	0
80	Federal and State Technology Partnership Program	2,490,000
Grand Total		**$6,529,337,707**

Sources: Departments of Agriculture, Commerce, and Housing and Urban Development and the Small Business Administration.

Note: Some of these 80 programs can fund a variety of activities, including those focused on noneconomic development activities, such as rehabilitating housing and building community parks.

SCORE™

FOR THE LIFE OF YOUR BUSINESS

FY2013 Budget

SCORE Makes Money

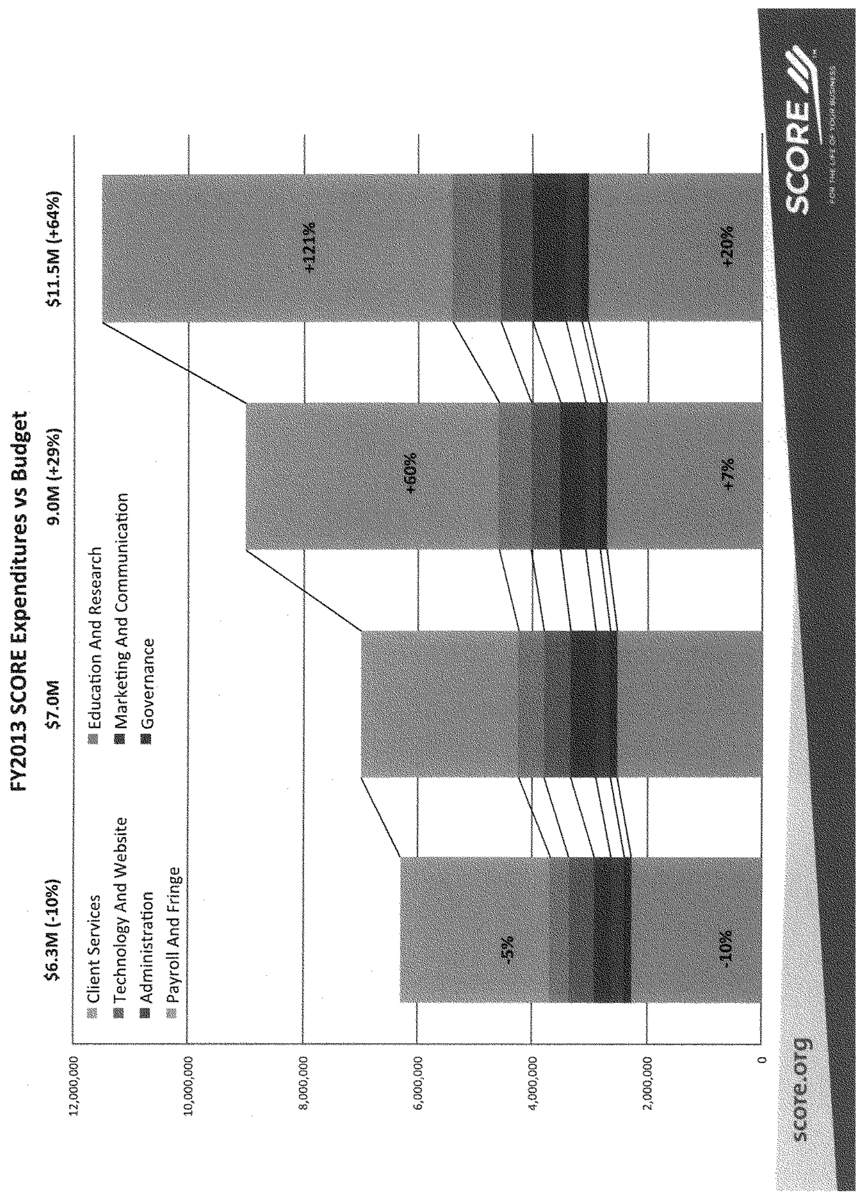
- $1 appropriated → $57 tax revenue
- $40K *new, incremental* payroll tax per volunteer
- 2011results
  - 40K businesses @ $172
  - 90K jobs @ $73
- We know how we can do better

SCORE Is Different

- We don't make *more* entrepreneurs;
  We make entrepreneurs *better*
- Volunteers bring deep, relevant expertise
- Business people helping Business people
- SCORE provides the glue
  - Training
  - Tools
  - Infrastructure

SCORE Is a Great Investment

- We can scale at low marginal cost
  - More chapters
  - Rural, inner city, & underserved markets
- $9M in FY2013 is the right number
  - Plan & infrastructure are in place
  - Bulk of increase goes directly to client services
- But… $700K cut will reduce revenues $15M-$20M


FY2013 SCORE Expenditures vs Budget
$6.3M (-10%)
$7.0M
9.0M (+29%)
$11.5M (+64%)
Client Services
Education And Research
Technology And Website
Marketing And Communication
Administration
Governance
Payroll And Fringe
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
-5%
-10%
+60%
+7%
+121%
+20%
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SCORE

U.S. Small Business Administration

PRESS OFFICE

News Release

Release Date: January 17, 2012
Release Number: 12-03

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SBA Program Helps to Bridge the Small Business Gap

WASHINGTON – The U.S. Small Business Administration's national network of Small Business Development Centers (SBDCs) plays an essential role in the economic development of their states and local communities through their direct, face-to-face counseling for small businesses, according to a report released today by the SBA. The report, produced by the National Small Business Development Center Advisory Board, focuses on SBDCs' impact on small business access to SBA's programs and services, including access to SBA capital, procurement, disaster and international trade programs.

"SBA's Small Business Development Centers give new and growing small businesses the resources they need throughout the year to grow and create jobs," said SBA Administrator Karen Mills. "The soundness of our economy depends on stable small businesses across the country and SBDCs are front and center helping entrepreneurs start, grow and expand their companies. These institutions reflect the diversity and individuality of their nearly 900 home towns and play an active and vital role in those."

The report confirms that SBA's SBDC program remains an essential part of the agency's mission to help small businesses. The report, *The SBDC Program: An Indispensable Partner in America's Economic Development*, demonstrates statistically the prolonged impact that SBA-funded SBDCs have on the formation and growth of small businesses. The report can be viewed online at http://www.sba.gov/sites/default/files/White%20Paper%20-%20FINAL%20-%2007-15-2011.pdf.

A key finding of the report is that SBDCs help local economies by improving the odds for startup small businesses. "SBDCs," the report says, "are solely focused on creating and supporting small businesses which in turn pay taxes, provide employment and diversify the economic base for their states. . . The businesses that work with the SBDCs are the job creators and enterprises that have the potential for survival and growth."

The report also highlights the effectiveness of SBDC counseling in improving the chances of small businesses that are seeking credit. "SBDCs have intimate knowledge of what lenders really want and need from borrowers to increase the likelihood of them being able to make a loan. The SBDC Business Advisors provide solid technical expertise to coach borrowers through the lending process."

-- more --

SBA News 12-3, page 2…

The report found that the 900 SBDC service locations provide a necessary local footprint in the communities they serve, delivering unique offerings tailored to the needs of its small business community.

The report also found that the SBDC program, for which the federal government covers half the cost, remains one of the government's best investments because of its close associations with other SBA resource partners, federal, state and local government small business assistance programs and service providers; universities and community colleges; and private enterprise and local nonprofit economic development organizations.

The nine-member independent advisory board provides advice and counsel to the SBA Administrator and associate administrator for the Office of Small Business Development Centers on the SBDC program.

Last year, more than 557,000 entrepreneurs received business advice and technical assistance through the SBDC program. In its more than 30-year history, SBDCs have assisted millions of small business owners and entrepreneurs to successfully start and grow small firms by fostering entrepreneurship and growth through innovation and efficiency.

# # #

Association of Small Business Development Centers

Statement for the record

C. E. “Tee” Rowe, President/CEO

Association of Small Business Development Centers

Committee on Small Business and Entrepreneurship

United States Senate

March 29, 2012

Chairwoman Landrieu, Ranking Member Snowe, Members of the Committee. On behalf of the 63 State and Regional networks of Small Business Development Centers and their nearly 1,000 centers thank you for the opportunity to submit a statement regarding the US Small Business Administration's 2013 budget submission. My name is Tee Rowe and I am President and CEO of the Association of Small Business Development Centers.

As you know, for 30 years the SBDC network has been providing front line services to entrepreneurs and small business owners while growing and developing an infrastructure dedicated to assisting all small business owners and providing them free one on one consulting and advice on how to improve, finance, market and manage their businesses. The result of our efforts and the support of our host institutions has been establishment of a nationwide network of nearly 1,000 locations with over 4,500 dedicated professional counselors and business advisors that annually assist hundreds of thousands of small businesses and entrepreneurs in every state and territory as well as every conceivable type of business.

Today's hearing focuses on SBA's budget request and how they can best focus budget priorities to serve small business growth and innovation. At SBDCs we focus on that concept every day. It is a basic tenet of our accreditation process as authorized in the Small Business Act. Each SBDC must develop and implement a strategic plan focused on continuously improving our services and skills to provide our clients – the small business community - with high value, up to date services. SBDCs provide assistance to small business of all types, in all demographics and all regions but, those services can't be stagnant. We are always trying to expand and improve our services in an effort to support the growing needs of the small business sector and to adapt to a changing business environment. The advance of technology has changed the way most small businesses have to do business to survive and thrive. Through our Association, and individually, SBDCs partner with firms like Google, Intuit, Dell, Microsoft and literally hundreds of others to bring innovative and efficient ways of improving and managing small business operations.

However, our strongest partner has always been the Small Business Administration. This is why there is a profound sense of disappointment in the SBDC network with SBA's 2013 budget proposal. How can SBA expect their partners to develop more and better services for their clients when we are slated to be cut by a full ten percent? And this is no imaginary cut, no reduction of an expected increase; this is a straight line reduction.

ASBDC wishes to point out that support for the SBDC program will fund proven job creation and economic growth. The annual survey of SBDC small business economic impact reveals that in 2009-2010 SBDCs helped our long-term small business clients create 61,213 jobs and save another 69,363 jobs. That works out to a cost of only $1,760 for every job saved or created.

While the economy was struggling the average SBDC client had a 9.5% growth in jobs while the national average then was NEGATIVE 0.5%.

In addition, SBDCs helped their clients create over $4.7 billion dollars in new sales at a time when most small businesses are losing sales, and save another $5.1 billion in sales. At the same time SBDCs helped small businesses attract over $3.4 billion in financing in 2009-2010 and over $3.9 billion last year.

Finally, for every dollar that supported the SBDC program we helped our clients produce $234 million in federal revenues and $182 million in state tax revenues. We know of few, if any, other programs that can produce such significant results for such a reasonable federal investment. I would also add that long-term SBDC clients, on whom our study results are based, are only a portion of the overall SBDC clientele.

That figure is revenue, return on investment. There is another side and that is savings. I offer one example. In Mississippi between 2008-2010 the SBDC saved $17.7 million dollars in unemployment costs for the government. Its simple math, the SBDC helped create those jobs, the average costs of unemployment insurance for those persons was eliminated. I know some people believe that the jobs created and saved figures are a bit specious. Our numbers are based solely on the jobs created and saved as reported by MSBDC clients. Not a formula, the small business client. By the way, Mississippi represents only 1% of the population.

Were this budget recommendation to be enacted the result would be predictable, fewer services for small business owners. You can't fight that reality. In states like Maine, New Hampshire, Idaho, Wyoming or Alaska they'll go from a minimum funding level of $625,000 to $561,000 with a commensurate cut probably coming from the state or university matching funds. Does anyone think a SBDC can adequately cover all of Wyoming or Maine losing that sort of support?

Chairwoman Landrieu, you and your colleagues know that when a disaster strikes SBDCs are right out in front. Whether it is setting up Disaster Recovery Centers on the Gulf Coast after the BP Oil Spill or after the floods in northern Maine, SBDCs are the ones providing the support for small businesses trying to recover. And that support comes before the disaster as well as after. SBDCs are out there providing the training to enable small business to better recover. How much harder and more costly to the economy will disaster recovery be without SBDC assistance?

Two years ago Chairwoman Landrieu and Senators Snowe, Shaheen and Cardin sent a letter to GAO regarding inter-agency collaboration on exports. Since then SBDCs have been developing programs and capacities in support of small business exports in response to both the President's National Export Initiative and the export language in the Small Business Jobs Act. In Massachusetts and Illinois, as well as other states the SBDC network is the state's export outreach program.

SBDCs are intimately involved with USAID and the State Department, as well as SBA's Office of International Trade expanding outreach to small business exporters. We are now the State Department and USAID's preferred model for international economic development, as shown in El Salvador, Colombia and other Latin American nations. How will our efforts in expanding international trade opportunities be compatible with the reduction in resources?

Across the Potomac, Virginia's SBDC network is an example of the broad reach SBDCs have. In addition to their veteran's outreach program, their network includes a women's business center in Richmond and a rural outreach program, the Main Street project, to aid small businesses in small communities. They also assist small businesses with procurement, international trade, energy conservation and a host of other services - like SBDCs all across the country.

We know that SBA faces some tough choices and they want collaboration between programs. Allow me to tell you how some of that collaboration is already occurring. SBDCs incorporate Women's Business Centers; host SCORE counselors, VBOCs and PTACs. SBDCs work hand in glove with the Delta Regional Authority as well as the Appalachian Regional Commission and many other federal agencies. Yet at the same time, programs and initiatives often arise that seem to duplicate the efforts of existing programs and ignore the capabilities that are already in place.

Here is a concrete example of all the parts working together. In San Antonio, the SBDC has a client Kiolbassa Provision, a third generation family firm. The SBDC collaborated with a 504 lender to help Kiolbassa get the funds to expand their plant. The result of this collaboration was a tripling of the employment and a tripling of the revenue of that firm. They created 80 jobs through the collaboration of two SBA partners. Now that small business supplies Costco and Wal-Mart and expects to gross over $30 million this year.

So, a 504 loan supported by SBA goes through. It goes through because an SBDC supported by SBA helped develop the finance and marketing strategies for the small business. The small business triples its sales and employment returning more revenue to the federal and state government than ever before. But, what happens when you pull some of that support? The 504 lender can't provide the technical assistance if the borrower gets in trouble. Who is going to help do the workout?

That brings me back to collaboration, there could be more. SBDCs could be helping 7(a) and 504 lenders with workouts on troubled assets. Our clients already know us and use us as a resource if they have trouble. How many other small businesses could benefit if lenders referred troubled borrowers to SBDCs? We can't do that without resources.

No lender wants a loan to go bad but, most banks aren't equipped to provide those services when things start to slide. Why liquidate if we can save a business and the jobs? What would happen to subsidy rates if SBDCs could help more troubled borrowers. That said, there isn't much hope of SBDCs helping troubled borrowers if their already thin resources are reduced further.

Chairman Landrieu, SBDCs are seeking an appropriation of $117 million dollars, a four percent increase, enough to maintain services at the current level. That will provide a small population state like Maine or New Hampshire with a minimum funding level of $650,000. That will allow SBDCs to continue to be the backbone of SBA assistance. It will give them the resources to keep helping small business create jobs or help them retain the jobs that might be lost.

Thank you.