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HEARING ON THE PRESIDENT'S FISCAL YEAR 2009 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

February 27, 2008

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HEARING ON THE PRESIDENT'S FISCAL YEAR 2009 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

WEDNESDAY, FEBRUARY 27, 2008

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

The committee met, pursuant to notice, at 10:04 a.m., in room 428–A, Russell Senate Office Building, the Honorable John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Cardin, Snowe, Dole, and Thune.

OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY, CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MASSACHUSETTS

Chairman KERRY. The hearing will come to order.

Good morning, Mr. Administrator. Thanks for being here with us.

Senator Snowe, I understand, is on her way so I thought we would just get going.

I appreciate your coming up here to testify on the President's budget for fiscal year 2009. Obviously this is the last budget to be presented by the Bush Administration. And just from a personal point of view, I regret that it really seems to be at odds with the realities of what is happening in the marketplace and the purpose of the SBA, in my judgment, and I know, Administrator Preston, you have to come here and defend it. You do not make all these choices. I understand that. It is not an enviable position to be in.

The OMB probably gives you a set of figures and you are stuck with them, and I understand the dynamics. But the problem is that, you know, every day you pick up newspapers. Here is today's New York Times: "Small to mid-sized banks beginning to struggle in credit crisis."

The economy, Greenspan has said that it is growing at about zero percent. It may take longer than normal to grow out of this. Some 60 percent of economists are talking about a major slowdown, 40 percent a recession.

This is a time for the SBA to be helping folks. And I know what your testimony says and the argument will be made, or at least the spin will, that the President's request is about a 15 percent increase.

But when you exclude the disaster assistance money and really do an apples to apples comparison of budgets, this budget really continues the President's policy of cutting funding for critical small business programs.

If you take the disaster money out and we all understand disaster is disaster is disaster. The SBA is supposed to be there for that purpose and it does, but it is also supposed to be there to assist small businesses to grow, to create new jobs, to help provide credit where it is not there normally, not just obviously in a disaster.

If you exclude the disaster money and congressional earmarks, the budget represents a 28 percent cut in funding since President Bush took office. If you take inflation into account, the budget represents a cut of 41 percent since 2001.

One of the most unreasonable proposals that I expect Congress to reject again, as we have, is President Bush's recycled recommendation to make the microloan program self-financing by raising the interest rate that intermediaries pay and to eliminate completely the Microloan Technical Assistance Program that supports it.

Now, you know, what this does is shift the counseling to the Small Business Development Centers and the Women's Business Centers, programs that are already being starved for resources.

I mean, we have heard from these folks. And if we are listening to them, they have come up here again and again and said that they can barely keep up with what they are trying to keep up with now. So instead, we are going to dump more on them.

Since 2005, the Administration has sought more than $400 million for international microcredit programs. The question looms large for all of us. You know, if we can spend hundreds of millions of dollars to help small businesses in Iraq—I just came back from Afghanistan and Pakistan where, incidentally, we need to be doing economic development because it is in our national security interests. But if we can do that in other countries, surely we can support microloan programs here at home.

And it is really contradictory to hear the Secretary of Defense and/or, you know, the National Security folks, come in here and tell us how wonderful these programs are, how effectively they work, what a terrific impact they are having on creating jobs and business and creating stability in these other countries, and yet there is a resistance here.

During the month of January, our economy actually lost 17,000 jobs. In times of economic growth, we need to be adding 150,000 to 200,000 jobs a month just to keep pace with population growth.

At the end of January, the number of claims for initial unemployment benefits rose to 375,000 compared with 317,000 at the same time last year. That is a huge increase. Yet the Administration now wants to pull back its support for the programs which actually help the creators of new jobs.

The President's budget cuts Small Business Development Centers 10 percent. It cuts Women's Business Centers 9 percent, and level funds SCORE. And again the timing, when you compare it to these headlines, is confounding. At a time of economic uncertainty when many small firms across the country need support and guid-

ance, the Administration is reducing funding for these important counseling programs which, in effect, says we do not really believe that the SBA is there for the purpose that it is there for or it is not that important or it somehow does not make that much difference. You put your budget money where you think your priorities are.

In addition to the key program cuts, the Administration's 2009 Budget continues to underfund a number of vital programs, including the New Markets Venture Capital Program and the 7(j) Technical Assistance Program that are designed to help small firms locate in a high unemployment area and provide technical assistance to disadvantaged firms.

There is no new funding for Procurement Center Representatives. The training budgets for the HUBZone and the Native American Outreach programs continue to be underfunded. And there seems to be some question of accountability still based on the fact that the contract for the 7(j) Program was given to a former Administration appointee who has absolutely no business counseling experience whatsoever.

The President's request for the SBA's Office of Veterans' Business Development is also inadequate in light of the anticipated troop draw down in Iraq. With the number of returning service members expected to rise significantly in 2009, this office requires full funding support to accomplish its mission of helping America's veterans complete their transition back into civil life.

More funding is also important to carry out the provisions of the Military Reservist and Veterans' Small Business Reauthorization and Opportunity Act of 2008, which was signed into law February 14.

It is hard, Mr. Administrator, to understand why the Administration requests no funding or insufficient funding for many programs that currently exist but then turns around and proposes to create new projects such as the Emerging 200 and the Rural Lender Advantage Initiatives which are ideas that have merit but, frankly, overlap or duplicate or remake existing or former programs.

And finally, the budget does nothing to address the concerns being raised about the impact of the looming credit crunch on the Nation's small businesses, which is what this headline here is all about.

A number of banks may now fail. I will read from the heart of this story:

"Losses amounting so rapidly at some of these banks that a small number of them, perhaps 50 out of 7,500 nationwide, could fail over the next 12 to 18 months."

"But the breadth and depth of the current troubles have caught bank executives by surprise. Federal regulators are particularly concerned about the exposure of smaller banks to the commercial real estate market which has begun to soften in some parts of the country."

And it goes on to talk about the problems of credit and how this tightens up downstream for the very companies that we want to be here for. It seems to me this is a moment for the SBA to be present, not to retreat.

So far this fiscal year the number of loans made through the SBA's largest lending program, the 7(a) loan guarantee program, has dropped dramatically, reflecting some of this credit problem but other things also. And instead of making these funds more available to people facing a credit crunch, the President's budget makes matters worse by raising the lender fee to the maximum amount allowed.

Boy, there is a deterrent to people's ability, in a credit crunch time, to be able to make ends meet.

So, you know, Mr. Administrator, it is a struggle here to understand, through the years, this process. I think you have made bona fide efforts, as I have said here before, and we have enjoyed working with you on it. It is hard for you to come here and defend this, I know.

But your prepared testimony tries to assert a 15 percent increase from 2008 funding levels. I understand the congressional levels. I understand the timing differential between your request and when the Omnibus went through and I understand what Congress did in the Omnibus.

But in the end, the President's request is actually a 3.4 percent reduction from the 2008 enacted level and a 28 percent reduction from the 2001 level when you really compare the apples to apples, which is what is important here.

So we are going to try to change it. I hope you will work with us to try to change it. We, unfortunately, too often find that even when we do change it and we do things in favor of the SBA, we wind up with holds on the floor or back door resistance to them, and my hope is, obviously, that we can avoid that.

Senator Snowe.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, RANKING MEMBER, A UNITED STATES SENATOR FROM MAINE

Senator SNOWE. Thank you, Mr. Chairman. I appreciate your comments as well as your leadership and long standing advocacy for small businesses in this country, particularly at this difficult and challenging time in our Nation and the economy as it stands today. We have to do much more for small businesses and we certainly can do that through the Small Business Administration. I appreciate the historical bipartisan approach that has been adopted by this Committee and I know that will be the case in some of the issues coming before this Committee during this consequential economic time in our country.

I want to welcome you, Administrator Preston, and thank you for your contributions over the last 18 months during your tenure. You have certainly moved the agency forward in many aspects including disaster preparation, customer service, streamlining procedures as well as employee morale.

I share the Chairman's concern about the Administration's budget that has been proposed for the Small Business Administration. Again, it is another pattern, unfortunately, of short-changing the very agency that we need to be bolstering during this lagging economy.

In its final year, the Administration certainly could make an imprint on the impact and its commitment to small businesses, but this is the 8th consecutive year in which we have seen a decline in the budget for the Small Business Administration. In fact, it is a net decrease from fiscal year 2001 of 27 percent. That is the largest decrease of any Federal agency in its core programs since fiscal year 2001.

When you consider that the SBA budget represents 2/100th of a percent of the total Federal budget, yet at the same time small businesses create three-fourths of all the net new jobs in America, can there be any question that adequately funding small business programs is an investment in America's economic future?

We are holding this crucial hearing at a key moment, as I have said and the Chairman has said, when our economy is losing jobs rather than creating. We saw that in January 17,000 jobs were shed in that month alone, the first time in four years that employment has shrunk.

When 80 percent of Americans believe the economy is in bad shape, the highest percentage since 1993, when there are approximately $460 billion worth of adjustable rate mortgages that will be reset scheduled for this spring, while new homes sales suffered the largest drop since the U.S. Department of Commerce has been keeping records in 1963 and when the price of a barrel of oil recently spiked to more than $100, as we saw for the first time this week, there is no question that we need to be doing much more.

In my home State of Maine, things are just as bleak. Announced layoffs for February and March are already up 75 percent over the layoffs that occurred in December and January. The number of people exhausting their unemployment benefits increased 7.6 percent in 2007 as compared to 2006.

Given the sluggish state of our economy, it is all the more imperative that we equip small businesses, our true job generators, with the tools not just to mitigate and stem this crisis but to be a catalyst for helping to address and ultimately solve it.

Given that SBA is the only agency within the Federal government with the responsibility to foster small businesses, I am truly disappointed by the overall funding which fails to maximize the opportunities that the SBA could provide to our Nation's entrepreneurs to right this economy.

The SBA's fiscal year 2009 proposed budget contains $657 million in new budget authority. While the Administration touts this number as a budget increase, it includes $174 million in disaster funding. Disaster funding varies tremendously from year to year with none needed in 2008 because of sufficient funds that were left over from the previous years.

Furthermore, let us be clear that disaster funding is limited, as it should be, to disaster response and not for the SBA's core programs. When subtracting disaster funding, this budget would only provide $483 million for the SBA's core programs, a 3.5 percent decrease from the fiscal year 2008 funding for the SBA's core programs.

This request erodes financial support for small businesses when they need it most, and in addition, in fiscal year 2008 the Congress added $69 million in earmarks to the Small Business Administra-

tion. That did not go to the core programs, but that was another $69 million that was part of the overall budget.

Furthermore, I am deeply disappointed with the same old recycled funding proposals. Long before you arrived, we were dealing with the same recycled funding proposals for Small Business Development Centers, SCORE, Veterans' Business Outreach Centers and government contracting, to name just a few.

These initiatives provide invaluable technical assistance to more than one million entrepreneurs every year. If there is ever a time to increase funding for these programs, as the Chairman and I have requested in a letter to the Office of Management and Budget last month, this moment would be now.

I must point out that Women's Business Centers will be funded at $1.2 million less than in fiscal year 2008, preventing the opening of any new centers in fiscal year 2009 and requiring all the existing centers to receive significant cuts to their grant allocations. Small Business Development Centers would see a $10 million decrease from 2008 funding despite the program's documented success.

Also consider the issue of funding for Veterans' Business Outreach Centers which has only risen by $128,000 since fiscal year 2000, which is a zero percent increase when factoring for inflation. With nearly 1.7 million U.S. personnel deployed since 2001 in support of Operation Enduring Freedom and Iraqi Freedom, how can funding for these centers simply be static?

Given that these entrepreneurial programs have exceeded expectations, it defies logic that they would be shortchanged, especially at a time when our Nation will rely heavily upon small businesses to bolster our economy.

Regrettably, the Administration again is proposing to eliminate the subsidy for microloans and to transfer the microloan technical assistance duties to the entrepreneurial development programs. This program is a proven way to assist underserved entrepreneurs to start and grow their businesses in a way that regular 7(a) lending cannot.

The Administration's fiscal year 2009 budget proposal undermines the program's purpose and defies stated congressional intent. Every year in Maine I see how effective microlending has been in spurring economic development. Now the proposal will increase interest rates and remove critical technical assistance which would raise barriers to use this critical program.

Congress sent a clear message last year that the budget request had been wholly inadequate by enacting a $40 million funding increase over the President's request for the SBA.

It is clear that we are again going to have to go back to the drawing board on this budget. I know it is not the budget that you would have preferred or wanted, but we are faced in the same situation we have been over the last seven to eight years. It just really does defy my comprehension in terms of why. SBA is the one agency that could single-handedly create jobs in a most cost-effective manner, and we are not bolstering its programs at a time when our economy is desperately in need of that kind of reinforcement.

This would be a win-win and so easily done for these programs that have demonstrated their effectiveness and their success. I am disappointed. I am sure that you share that disappointment in

many ways, but we are where we are and we are going to have to go back to the drawing board on many of these issues.

Thank you, Mr. Chairman.

Chairman KERRY. Thank you, Senator Snowe.

You know, I was struck that Senator Snowe and I did not converse before this, and did not share a strategy or approach to our opening statements at all, but we each could have given the other's statement, which is an interesting comment, Mr. Administrator, and I know these opinions are shared by other members of this Committee.

I must say to you, my conclusion after all the years I have been on this Committee, and now as Chair, is obviously that this is just ideologically driven. It is a sad statement, but basically the Administration does not believe in the SBA.

It has been starving it on a steady rate since it has been here partly because, as we learned during the Reagan years, when you cannot exactly get rid of it altogether, you marginalize it. And I think it is really sad that an agency that does as much good and has the potential to do as much good, gets put in those shoes. And I think it is unfortunate for you. You do not have to comment on that if you do not want to, but it is my take on where we are that this is driven by folks who just do not believe the Federal government ought to be involved in helping businesses except in emergencies for disaster assistance. It ignores the reality of the Intels and Callaway Golfs and FedExes and a bunch of other companies that got where they are today because of SBA's programs. And there could be so many more created. But instead we are moving in the opposite direction, particularly at the time of greatest need.

So we look forward to your testimony. I did mean to quote Chairman Greenspan, who is still referred to as such, because that was his speech that he gave the other day about the zero growth, and I would like to invite your testimony.

I apologize, Senator Dole, I am very sorry.

Senator DOLE. No problem. That is perfectly all right.

Chairman KERRY. You are wearing that black. You are blending into the chair.

Senator DOLE. I am blending in too much.

[Laughter.]

OPENING STATEMENT OF THE HONORABLE ELIZABETH DOLE, A UNITED STATES SENATOR FROM NORTH CAROLINA

Senator DOLE. Thank you, Mr. Chairman, Ranking Member Snowe. I am delighted you are holding this hearing this morning and, Administrator Preston, thank you for being here to testify.

Some of what I am going to say is going to be repetitive but it will just underscore that we are all certainly of the same mind here.

Small businesses have been the key components to the engine that ran the booming economy for so many years and they will be integral certainly in reviving the slower economy that we are experiencing today.

As banks continue to tighten their belts and credit remains scarce in open market lending, the 7(a) guaranteed loan program

remains an essential outlet for qualified small businesses to obtain capital.

I hope that the Administration's suggestion of a 29 percent increase in guaranteed loan levels can become a reality.

North Carolina, in North Carolina we often find ourselves in the paths of a hurricane. We have had lot of hurricane problems and, while we have not experienced a direct storm in recent years, a couple of years, we are in the midst of another type of disaster, a natural disaster which is an ongoing drought that is one of the worst in the Nation.

In fact, I had a group of farmers in just recently and we were talking about H–2I and H–2B and H–1B, and one of them said, an H2O, and I said, well, you are going to have to look somewhere else for that one. I cannot help you on that. I will be glad to try to help on the others. But it has been a severe drought problem in North Carolina.

Following many catastrophes, SBA disaster loans have helped North Carolinians and their businesses recover and I truly applaud your work to improve the disaster recovery plan. I look forward to working with my colleagues to ensure that adequate funding is available to implement this initiative.

In addition, the availability of electronic applications and a more streamlined loan approval process will improve folk's ability to receive the funds they desperately need after a disaster.

With regard to women-owned businesses, I have long been an advocate for these firms and I am proud of the significant impact that they have had on the overall economy. In fact, it has truly been phenomenal.

I was unable to attend the hearing that you had a few weeks ago, Mr. Chairman, but let me say that I am very concerned about the SBA's proposed rule for the Women's Procurement Program.

I have joined Senator Snowe in introducing legislation that would provide a fix for this misguided rule.

Furthermore, I am troubled by the Administration's proposed 3.5 percent cut to core SBA programs which includes funding Women's Business Centers. These centers along with others that are a part of the Entrepreneurial Development Program provide critical services and should receive adequate funding.

Again, Mr. Chairman, I want to thank you for holding this hearing and just say to Administrator Preston that I was with one of his predecessors, Erskine Bowles, last night and he sends his warmest to you.

Thank you.

Chairman KERRY. Thank you very much, Senator Dole.

Mr. Administrator.

STATEMENT OF THE HONORABLE STEVEN C. PRESTON, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Administrator PRESTON. Thank you, Chairman Kerry, Ranking Member Snowe, Senator Dole, for the opportunity here to present the President's 2009 budget.

If you look back at the year we are just coming off of, I think, has been a year of very significant accomplishment for us. And

what I would like to say about the 2009 budget, as we look forward, is I think it is going to help us continue to make a lot of progress with respect to our ability to drive clear outcomes for small businesses, to provide effective service to small businesses and disaster victims, and to continue to prepare our work force to be accountable to the small business community.

In 2007, we saw the number of loans go up. We saw our Disaster Assistance Program dramatically re-engineered to shorten response times, to improve the operation, improve service for the people that need those services. We worked with Federal agencies to improve the accuracy of contracting data and bring greater transparency to that process. A total of $78 billion in prime contracts went to small businesses and over a million small businesses used SBA Entrepreneurial Development Programs provided through our resource partners.

I appreciate you mentioning it, Senator Snowe. I am particularly pleased that the employee morale at the agency has rebounded dramatically and we continue to be very focused on that issue, especially as a service organization.

You highlighted that, technically the budget shows that it is a 15.5 percent increase. There are a lot of moving parts to that.

What I would say is, when you look at the core operating budget at the agency, the ability for us to run those programs, to serve the needs of the people through the agency, our core budget is up 6 percent.

That reflects a continuation of a lot of the operational reforms that we are making at the agency to help us be more effective and more responsive to customers. Many reforms of which involve extensive process re-engineering and technology improvements, the under-served marketing initiatives to support small business formation and growth in areas of our country with higher levels of poverty and unemployment which I think is so important to energize local economies and create jobs, bringing sustained investment.

And also that is sort of a core piece. As you noted, disaster funding is a different kind of funding request and reflects carry-over funding and special needs.

The other third piece, I think, is really where we are seeing the impact is the non-credit programs. We have asked for funding for the primary non-credit programs which are consistent with historical requests.

Obviously the enacted funding levels for 2008 were increased at the end of the year and so as a result we would see some decline for the SBDC and Women's Business Centers as a result.

As many of you know, we strongly believe that by improving service to our partners and our customers, by sharpening our product mix, deepening our penetration in key markets where we think we need to be present and by developing more sophisticated oversight, we believe we will continue to expand our impact on the small businesses of America. And I would like to get into, in the Q and A, a little more detail on how we think we can do that.

I also want to say how much I do appreciate all of your support for our programs, and for the reforms that we have been trying to drive at the agency. It has been very encouraging to me.

I would also like to say how thankful we are that you continue to focus on the broader economic issues that support small businesses. Specifically the stimulus package that was passed earlier this year we think is going to be a real booster shot.

We think it is very important for small businesses and we know that your leadership will mean rebate payments for individuals, married couples as well as investment incentives for small businesses as they look to create jobs and stimulate the economy.

In addition to the stimulus package, I join the President in pushing for strong longer term economic policies that we think will be very important for small businesses in the future, Specifically making tax cuts permanent and right now specifically taking a hard look at a lot of these free trade agreements that are before us and truly understanding what they mean for small business.

Right now, small businesses represent almost 30 percent of our exports. We believe it is very important that we continue to provide a platform and enabling agreements to allow them to reach those foreign markets and expand more broadly.

The pending agreements before us will level the playing field for U.S. exporters not only by equalizing the tariffs, but also addressing other issues which I think have a particularly strong impact on small businesses who want to export.

Intellectual property protections. Obviously small businesses are terrific innovators and it is very important that they are protected there. Other issues like addressing excessive licensing and inspection requirements, burdensome paperwork and inconsistent customs procedures tend to weigh more heavily on small businesses that do not have staffs to take care of these things.

I think Colombia is a great example. 85 percent of the exporting companies to Colombia from the U.S. are small businesses, and whereas small business represents about 29 percent of our overall exports, they are 35 percent to Colombia and we think the FTA will continue to expand opportunities there.

So once again, I appreciate the cooperation and the bipartisan spirit that has brought us together on a lot of critical issues. I very much appreciate your support for our program, and I look forward to working together on a lot of these issues.

As a final note, let me comment on two bills that I know are important to the Committee, the Energy Independence and Security Act of 2007 and the Military Reservists and Veterans' Small Businesses Reauthorization Opportunity Act of 2008.

Obviously those bills came in a little bit late for us to acknowledge them in the budget, but we are moving forward on implementing all the provisions in those two Acts that do not require a specific appropriation.

We would look forward to working with your staffs to keep them updated on how we are progressing. We appreciate your support on those.

Once again, thank you for inviting me today and I look forward to answering any questions you have.

[The prepared statement of Administrator Preston follows:]

TESTIMONY OF

SMALL BUSINESS ADMINISTRATION

ADMINISTRATOR STEVE PRESTON

United States Senate

U.S. Senate Committee on Small Business and Entrepreneurship

Wednesday, February 27, 2008

Chairman Kerry, Ranking Member Snowe, distinguished members of the Committee, thank you for inviting me here today to discuss the President's Fiscal Year (FY) 2009 budget request for the U.S. Small Business Administration (SBA).

President Bush's unwavering support for America's small business is evident. His leadership has ensured that small businesses play a vital role in our economic growth – adding more than 8.68 million new jobs since August 2003. By reducing the tax rates small business owners pay and increasing expensing tax provisions on investments, small businesses have more capital available to hire new workers and expand their businesses and inject new energy into our economy in the process.

While our economy is strong and resilient, and we believe it will continue to grow, the Economic Stimulus Act of 2008 passed by Congress and signed by President Bush will provide a booster shot for our economy – it is a robust package that puts money back into the hands of American workers and businesses. I want to commend you and your colleagues for your prompt action on this legislation. Your leadership will mean that the rebate payments for individuals and married couples and the investment incentives for businesses will help create jobs and stimulate our economy.

In addition to the Economic Stimulus Act of 2008, I join the President in pushing for long-term economic policies that are in our country's best interest – particularly a pro-growth tax system. We need to encourage investment by keeping taxes low. The President's tax cuts have provided important capital to small businesses to support economic expansion, job creation and innovation. Small businesses face a tax increase of 17 percent, or $4,000 per

year, on average, if the President's tax relief isn't made permanent. I urge you not to ignore this important small business issue as you consider the FY 2009 budget.

Another important issue for small business is free trade. The pending agreement with Colombia is designed to level the playing field on tariffs for the benefit of U.S. exporters, as well as non-tariff barriers like intellectual property protections, excessive licensing and inspection requirements, burdensome paperwork and inconsistent customs procedures. It is important to note that in 2005 85% of U.S. companies exporting to Colombia are small and medium-sized enterprises (SME), with fewer than 500 employees, accounting for $1.7 billion in merchandise. Small and medium enterprises account for nearly 30 percent of the value of U.S. exports, whereas the SME percentage to Colombia is 35%. This Free Trade Agreement is an important step in breaking down tariffs and other barriers to trade that often shut out small firms from key emerging markets. Export growth accounted for over 40% of growth in the U.S. economy in 2007. As we look for ways to improve the uncertain economy, it is more important than ever for the United States to open new markets and knock down barriers for U.S. exports.

FY 2007 was a year of significant accomplishment for the Agency. By building on the accomplishments of FY 2007 and FY 08 this budget request reflects our leadership team's vision for the Agency's future. In FY 2009 SBA will continue to focus on our reform Agenda driven by clear outcomes, focusing on serving its customers effectively, enabling our employees, and operating an accountable organization. We will renew our focus on ensuring that its products and services are accessible to entrepreneurs in the most underserved markets – those in low to moderate income areas, HUBZones, and Empowerment Zone/Enterprise Communities.

- SBA's Fiscal Year 2009 budget request reflects the President's continued commitment to America's small businesses and the vital role they play in our economy. Enactment of this request will enable SBA to continue serving the small business community while supporting SBA's strong track record of fiscal responsibility. SBA's total budget request for FY 2009 is $657 million in new Budget Authority. This represents a 15 percent increase over the FY 2008 appropriation. From the standpoint of the Agency's operating budget, this request represents a 6 percent increase above FY 2008. To understand SBA's budget and compare it to previous years requires analysis of four distinct components: Operating expenses, disaster, resource partners, and earmarks.
    - Operating expenses: The request for FY09 operating expenses is 6 percent, or $22 million above FY08. Operating expenses represent funds to run all non-disaster aspects of the agency. This includes compensation and benefits, contracts, travel, supplies and other mandatory items like rent and workers comp. It also allows SBA to allocate substantial new dollars for technology and employee training.
    - Disaster: For FY09 the agency requests $160 million for disaster program administration and $14 million for disaster program subsidy, and anticipates an additional $150 million in subsidy carryover from 2008. In FY08, no money was requested for the disaster program – it was funded out of carryover balances from the previous year.

- Resource partners: The request is flat to FY 07 levels and FY 08 request, although lower than the FY 08 appropriation.
- Underserved Markets: This year we are requesting an additional $250,000 to support an innovative new program, the *SBA Emerging 200* initiative, which will provide capital access, business planning, and government contracting and mentorship assistance in 10 inner city communities across the country.
- Earmarks: No earmarks are proposed, versus $69 million in earmarks in the FY 2008 budget

Highlights of Major Accomplishments in FY 2007

Before I talk about our vision for FY 2009 I want to highlight some of the Agency's accomplishments in FY 2007 because they provide the backdrop to our plan for 2009, and the work we are continuing in 2008. FY 2007 was another year of significant accomplishment for the SBA not only in our core programs but in our overall management.

Capital Access: A total of 110,000 new 7(a) and 504 loans were approved – the most in the Agency's history. These loans represent $20.6 billion in new lending to America's small businesses. These small businesses were able to start, expand or grow, through access to capital that likely would not have been available without the SBA's involvement. The SBA contracted with the Urban Institute to assess its small business lending programs. They also found that SBA programs are more effective than conventional lenders in reaching minorities, women and start-ups. The findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit elsewhere." SBA is piloting its Rural Lender Advantage product to improve penetration in community banks and undertaking other initiatives to expand capital availability in underserved markets.

Disaster Assistance: The Office of Disaster Assistance completed a fundamental reengineering of its disaster loan processing operation that has dramatically shortened response times, improved quality of service and increased borrower support for all disaster victims. Processing backlogs were eliminated and feedback on the new approach has been universally positive. The Agency completed a Disaster Recovery Plan that describes the process that has been established to ensure effective Agency-wide operations in the event of another catastrophic disaster similar in magnitude to Hurricanes Katrina, Rita and Wilma.

Government Contracting/Business Development: During FY 2007 SBA worked with Federal agencies to improve the accuracy and reliability of contracting data by identifying database miscoding and anomalies. In FY 2006 (the most recent fiscal year for which data is available), Federal agencies reported that a total of approximately $78 billion Federal prime contract dollars went to small businesses. Contracts to service-disabled veterans increased by 50% over FY 2005, from $2 billion to $3 billion; contracts to women-

owned small businesses increased by $1.5 billion; contracts to Small Disadvantaged Businesses companies rose by $2 billion; and contracts to HUBZone companies were up $1 billion. This shows record levels of prime contract dollars for all programs across the board. The Agency has also undertaken extensive measures to simplify 8(a) certifications and reviews, train our field employees and automate their paperwork to increase and improve their outreach to small businesses, and redirect responsibilities to PCRs to focus more heavily on helping direct contracts to small businesses.

Entrepreneurial Development: In FY 2007 1.1 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners including Small Business Development Centers, Women's Business Centers and SCORE. The Agency leverages its resource partner network for training and counseling, business plan development, marketing strategies, implementing new technologies, accessing capital, winning government contracts, and many other undertakings vital to the success of a small business. During FY 2007 more than 240,000 small businesses took advantage of the SBA's free, online business courses offered through the Small Business Training Network (www.sba.gov/training). This year the Agency introduced an interactive Small Business Readiness Assessment tool to help individuals prepare for entrepreneurship.

Management: FY 2007 was a landmark year for the SBA in the area of financial management. As a major success in our Reform Agenda to ensure good stewardship of the government's resources, the Agency received an unqualified independent audit opinion with no material weaknesses – the first time since FY 2000. This result reflects the improvements the Agency has made in the quality of its financial processes, data integrity, and financial statements. By the end of FY 2007, the SBA made improvements in all nine major management challenges identified by the Inspector General.

In both the 2004 and 2006 Office of Personnel Management employee survey, SBA ranked 30th out of 30 in the Best Places to Work ranking provided by Partnership for Public Service. In 2002, SBA placed 24th. Thanks to our Reform Agenda, employees clearly see change. This year's survey results were remarkable:

- Positive scores improved in 38 out of 39 categories.
- Overall, job satisfaction increased 9 percent.
- Satisfaction with whether employees have the right skills, can use their skills, and improve their skills, increased 11 to 13 percent.
- Satisfaction with how well leadership communicates goals, priorities, and other information improved 11 to 16 percent.
- The respect employees have for senior leaders increased over 21 percent.

The strongest results appeared in areas where we have driven the greatest change. Employees are living the changes, believing that progress will continue-- and are energized by it.

Highlights of the Budget Request

The resources requested will support a total of $28 billion in small business financing, which represents a 37% increase over business lending for FY 2007, through the 7(a), 504, SBIC, and Microloan programs. For its flagship 7(a) program the Agency requests $17.5

billion, a 30% increase over the FY 2007 lending levels. The Agency also requests $7.5 billion for the 504 program, a 19% increase over the estimate loan level in FY 2007. Finally, $3 billion is requested for the SBIC Debenture program.

The FY 2009 Budget request supports other critical activities including:

- A Disaster loan volume of $1.061 billion in direct lending, the normalized ten-year average;
- Targeting a total of $85 billion in prime Federal contracting dollars to be awarded to small businesses in FY 2009;
- Investment in the Agency's human capital through continuation of the successful training and development programs, including "SBA University," ;
- Mentoring programs, succession planning, and proactive recruitment of highly qualified staff;
- Continuation of the modernization of the Agency's loan management and accounting system;
- Management of *Business Gateway* to provide a single site resource for small businesses and entrepreneurs to access information they need from their government;
- Strengthening and upgrading the Agency's information technology infrastructure to provide an effective, robust, secure, and high availability information systems to support the Agency's operations; and
- The SBA's FY 2009 budget request will support 2,123 FTEs from the Salaries and Expenses budget, which is a steady staffing level planned to be reached by the end of FY 2008.

Vision for the Agency's Future

As part of developing a vision to address major challenges and opportunities, in mid-2006 SBA listened to our partners and other stakeholders, our employees, and most importantly, customers who used our services. We also dug deep into operational information to get a clearer picture of what was happening. And over time, we instituted a robust system of performance measures, analyzed data on our markets, and began disciplined reviews of how we were doing, where the issues – and opportunities – really were, and what worked and what did not.

The next step to effective change was to bring a vision to the Agency. The SBA's vision for FY 2009 is to build on the important progress currently under way in three primary areas:

- Underserved markets;
- Disaster assistance; and
- A Reform Agenda to improve the effectiveness of the Agency in meeting the needs of America's entrepreneurs.

Underserved Markets

One of SBA's major initiatives is to accelerate entrepreneurial success through focused delivery of SBA products and services to underserved communities. Supporting small business formation and growth in underserved markets will energize the local economy, create jobs and bring investment to drive a sustainable economic base. The overall initiative will consist of a combination of program level and local level activities designed to serve major underserved segments in both inner-city and rural environments, and extend Agency support through each stage of entrepreneurial growth.

More specifically, the SBA is launching or redesigning lending products to reach small businesses in our Underserved Markets, expanding partnerships with other service organizations with a complimentary mission, and rolling out targeted development programs to reach these entrepreneurs. One example is The *SBA Emerging 200* initiative provides advanced technical assistance focused on business growth to at least 200 emerging inner city companies across 10 cities. The SBA would provide training grant(s) (totaling $250K a year) to organizations that will deliver a combination of capital access, business planning, and government contracting and mentorship assistance to emerging companies from locally underserved areas.

Disaster Assistance

The SBA has completed a major process and policy redesign to ensure we respond more rapidly in assisting small businesses and homeowners seeking financial assistance after a disaster. The Agency expects to continue its progress with the planned introduction of an Electronic Loan Application (ELA) in the summer of 2008. In addition, we are establishing an Executive office of Disaster Strategic Planning and Operations to ensure the smooth continuation of Disaster operations for direct and guarantee lending; contracting assistance; and technical assistance.

The Accelerated Disaster Response initiative focused on improving the disaster victim's end-to-end experience from disaster loan application, through approval and closing, to final disbursement of funds. The driving principles are speed of response, customer support and quality. Multiple teams worked on identifying and implementing reforms and improvements to our processes.

The SBA instituted a communications plan in which the regional and district offices work in conjunction with the Office of Disaster Assistance to help disseminate disaster information throughout the declared disaster areas. To better accomplish this task, the Agency prepared a disaster tool kit to be used by regional and district offices. The regional and district offices are instrumental in providing valuable community outreach efforts throughout their local areas.

We plan to offer applicants the ease of applying electronically for disaster loans through the Electronic Loan Application (ELA) after its expected completion in the summer of 2008. The ELA, combined with upgrades on the Disaster Credit Management System (DCMS), position the SBA to meet the needs of Disaster Assistance applicants more quickly while using fewer resources.

The SBA also issued a Disaster Recovery Plan to meet future challenges depending on the magnitude of the disaster (levels I – IV). The plan encompasses a disaster recovery framework that includes the disaster assistance process, operational support, roles and responsibilities, business process reengineering, forecasting and modeling, surging to accommodate needs, simulations, a communications plan, and ongoing initiatives.

The Disaster Recovery Plan also supports the following outcomes:

- Support of long-term economic recovery by providing capital to help disaster victims rebuild and withstand economic injury;
- Faster decisions on disaster loan applications, closing and disbursement;
- A customer-focused, transparent, outcome-driven model of performance;
- A strong, standing, Core Capability supplemented by Surge Capacity; and
- Processes coordinated with federal guidance and protocols for disaster recovery (e.g., the National Response Plan (NRP) and the National Incident Management System (NIMS), where applicable).

The SBA's Reform Agenda

What we hear from our partners and customers is that secondary factors are often as important as the primary product or service that we offer – factors like ease of use, timeliness and customer support. There is a fundamental connection between the effectiveness of our programs and the way we deliver them.

Through the Agency's Reform Agenda, the SBA is driving operational improvements by becoming an organization that is:

- More customer focused;
- Enabling employees and improving the SBA's work environment;
- Ensuring stewardship of the government's resources through accountability, efficiency, and transparency; and
- Outcomes driven.

Becoming More Customer-Focused

We have a renewed focus across the SBA to drive improvements in customer service and simplify Agency programs to make them more accessible to the public, small businesses, and resource partners.

The SBA executes its mission through a nationwide customer-oriented network of:

- Small Business Development Centers in all 50 states and U.S. territories, with more than 950 locations across the country;

- SCORE chapters in over 800 locations;
- A national network of community-based Women's Business Centers to help women start and run successful businesses;
- SBA district offices in every state;
- Eight disaster loan and business servicing centers;
- SBA Trade Specialists located at U.S. Export Assistance Centers in major metropolitan areas throughout the United States; and
- Six Area government contracting offices with procurement center representatives (PCRs) covering over 300 buying activities.

In addition, thousands of our banks and private equity firms extend capital through our programs and dozens of agencies participate in our programs to expand Federal contracts to small businesses. The SBA is expanding its online presence to meet the evolving demands of its customer base. In 2007 the SBA introduced the Small Business Primer: Strategies for Success, a free, online training course to assist individuals who are considering entrepreneurship or are in its early stages. SCORE will increase capacity and efficiency by developing a national call center and workshop registration center. The call center will remove the routine administrative burden of telephone answering and workshop registration from the volunteers. This call center model will enable SCORE volunteers to dedicate more of their time to provide additional client services at the chapter level. SBA has provided an additional online course to teach small businesses how to do business with the federal government.

To increase access to capital for small business, we have developed a series of initiatives aimed at making our programs easier for lenders to use, with a particular emphasis on assisting underserved markets and veteran communities. To enhance customer service, the SBA re-engineered processes in guaranty purchasing centers, focusing on strategies to improve the centers, enhance workflow, redesign processes, and standardize procedures. Performance measures and scorecard metrics are being established to promote accountability and transparency. A customer help function is being incorporated into the operation to provide better service and communication. In addition, a service outreach function has been created to work directly with larger lenders and with smaller lenders in partnership with the district offices to continually improve the quality of their interactions with the service centers and thus shorten cycle times.

We recognize the need for SBA to better assist small businesses to compete for government contracts. Additional procurement center representatives are being hired to ensure that small businesses are awarded their fair share of government procurement. We have also developed a "Quick Market Search" tool, an Internet engine linked to the Central Contractor Registration System (CCR).

The Agency created a Procurement Scorecard which measures how successful Federal departments and agencies are in meeting their small business contracting goals. This public scorecard will provide improved measurement and transparency to better allow small businesses to evaluate how the contracting offices are fulfilling the government's procurement obligations.

The SBA also plans to publish a scorecard of its resource partner programs. The SBA leverages its Entrepreneurial Development Management Information System (EDMIS), to

capture and analyze program impacts. The higher-quality information allows the Office of Entrepreneurial Development to better manage its programs to increase effectiveness and efficiency, and by publishing these metrics we will also bring transparency to the programs.

The Business Gateway portal continues to improve and expand upon its proven formula of single source information for businesses hungry for quick and easy access to government-wide compliance, regulatory and policy information.

Enabling Employees & Improving SBA's Work Environment

Employees are essential to the success of any service organization. As I mentioned previously, we have made great strides in 2007 that we plan to build upon. SBA will continue to build upon the success of SBA University, and to respond to survey results that showed that employees have a continuing desire for skills development. The budget request includes $1.15 million for this centralized training.

The budget request also includes $200 thousand for the Office of Business Operations to satisfy the requirements set forth in OMB policy for developing and managing the acquisition workforce. Under this directive, affected workforce members must meet mandatory and periodic discretionary training requirements.

Included in the budget request is an additional $130 thousand for a Government Contracting/Business Development training initiative. The training initiative will involve district office field liaisons and Government Contracting Area Office staff and focus on program administration and delivery with special emphasis on strategies to increase prime and subcontract awards. These conferences are expected to expand and increase understanding of the program and, more importantly, to begin to build a public/private sector network that will promote and support the WOSB, SDVOSB and HUBZone program within local communities.

The budget request includes an increase for the Office of the General Counsel of $150 thousand for training. The General Counsel has conducted an internal assessment of its operations. This review took into account an in-house survey, discussions with field personnel including regional administrators and district directors, and consideration of the comments and recommendations of Administrator's Field Advisory Committee. This review suggested that a coordinated training program for the legal staff is a necessity. If the General Counsel is to meet or exceed its strategic goals and long term objectives, it is essential that an attorney training event take place in FY 2009.

Ensuring Stewardship of Taxpayer's funds though Accountability, Efficiency, and Transparency

During this past year the Agency created a Performance Management Office to focus on internal operations and establish an agency-wide Performance Management Framework to better align Agency mission, funding and priorities. That office has developed enhanced

monthly performance management reports to closely track Agency operations and priorities on a monthly basis.

We recognize that government agencies need to become more efficient even while shouldering increased responsibility. Through careful analysis of its programs and operations, the Agency has demonstrated its ability to expand its services to America's small businesses while reducing total expenditures. At the same time we have been cognizant of our responsibility to manage our expanding loan portfolio.

Two primary principles govern the SBA's loan portfolio management practices — operational excellence and risk management. The size of the Agency's $85 billion loan portfolio mandates that it be prudently managed to ensure that small businesses and disaster victims are served and that the taxpayer is protected from losses. Actions the SBA has already initiated in the area of operational excellence include the following:

- *Centralizing operations* —In 2007 the SBA completed the centralization of all remaining 7(a) loan approval, and 504 and Disaster loan liquidation activities, resulting in streamlined financial assistance functions. Other benefits of this centralization include cost reductions resulting from specialization of activity by SBA staff, and greater consistency of policy interpretation and operational practices.

- *Operational assessments and Business Process Re-Engineering* — The SBA is completing and expanding operational reviews and business process re-engineering activities of its loan operations centers to identify opportunities for streamlining and process improvements.

- *Accelerating the liquidation process* — New 7(a) and 504 liquidation regulations require lenders to liquidate loans before submitting them to the SBA to honor the guarantee. The new regulations also position the Agency to resume an asset sale program for defaulted assets.

The Agency also places increased importance on risk management as part of the Agency's operational focus. Credit scores, combined with SBA lenders' current and historical performance, have allowed the Agency to assign risk ratings to lenders. Such ratings provide both an assessment and a monitoring tool for the most active SBA lenders, and are the primary basis by which lower volume lenders are evaluated.

In addition, the Office of Credit Risk Management improved SBA's lender portal to allow lenders to monitor their own portfolio performance and proactively address negative performance trends. This reduces the need for SBA action and potentially reduces loan program costs.

Thanks to its authority to collect fees for reviews and examinations from 7(a) lenders, the SBA increased its on-site lender reviews and examinations from 55 reviews in 2006 to 80 reviews in 2007 and plans to review over 200 in FY 2008. With the fee authority in place, the Agency expects to substantially increase the number of lenders reviewed and thereby reduce overall SBA portfolio risk. In FY 2009, the SBA will again increase the number of on-site lender reviews performed, with the objective of reviewing all large and mid-size lenders and Certified Development Companies on at least a bi-annual basis.

We are also expanding its monitoring and analysis of the disaster loan portfolio. This objective will be accomplished through the development of a system similar to the Agency's current 7(a) and 504 Loan/Lender Monitoring System. The Agency has begun the process to contract for this service, with full implementation planned before the end of FY 2009.

Modernization of our business loan system is a major Agency-wide undertaking that began in FY 2006. The Agency has finalized the business vision, developed the business case, developed the project management plan, and drafted the acquisition strategy. For FY 2009 the SBA is requesting $7.65 million in regular salaries and expenses funding for this initiative (to be complemented by a similar amount of disaster funding) for this project. Considering the nature and complexity of the project and underlying uncertainties of the acquisition process, it is requested that the funds appropriated for the project in FY 2009 be available for two-years.

We are also asking that a legislative change be made to strengthen and ensure stability in the SBA's secondary market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. This change will enable the program to operate without cost to the taxpayer or structural changes that we encourage Congress to pass as quickly as possible.

Outcomes Driven

To fulfill its mission, it is critical that the SBA understand how to drive outcomes aligned with that mission. The Agency is proud of its work on improving program performance through budget and performance integration which has allowed it to maintain the President's Management Agenda's (PMA) highest green rating in both status and progress since FY 2004.

The SBA has put heavy emphasis on clearly defining the outcomes that it is targeting and ensuring that its programs, processes and policies are aligned in achieving them. Results of the Urban Institute studies will help the Agency in adjusting its programs to improve their reach and value to America's entrepreneurs. They will also be used to establish an initial baseline for evaluating the outcomes achieved through SBA lending.

Conclusion

As you can see, it has been an eventful and productive 18 months since I first came to SBA, and the next year is shaping up to continue to build upon the advancements the Agency has already made. This is a good budget for America's small businesses, America's taxpayers and America's economy. I look forward to working with you to enact this budget and to help entrepreneurs start, build and grow their small businesses as they infuse new life into America's economy. Again, thank you for inviting me here today, and I will be glad to answer any questions.

Chairman KERRY. Thank you, Mr. Administrator.

Let me begin by asking you about lending. For the sixth year the President has proposed zero funding for the 7(a) loan program and is raising the lender fee by about five basis points.

Lenders have been really trying to communicate to you very directly. They have written to us on the Committee. Let me just share with you what National Association of Government Guaranteed Lender letter says. You may recall it.

"Dear Administrator Preston. NAGGL is concerned about the deterioration in the financial markets and its impact on the economy and small business. We believe that a nationwide credit crunch is underway as lenders tighten lending criteria and reduce credit availability.

"This situation has been precipitated by the subprime lending crisis, an infection that is spreading to SBA's 7(a) loan program, and I would like to ask your assistance in assuring the continued availability of the 7(a) program so critical to the U.S. economy overall.

"As you know, year to date, 7(a) loan volume is down 11 percent in numbers and 2 percent in volume. In these uncertain economic times, the SBA and its active lending partners are in a position to help alleviate the credit crunch and provide economic stimulus and assistance to small business.

"Based on SBA and FDIC data, SBA's 7(a) loan portfolio is performing as well as bank conventional small business loan portfolios. But senior management decisions at lending institutions to cut operating costs and curtail credit available in response to the subprime situation have impacted the 7(a) program."

So, Mr. Administrator, this letter was written to ask for relief from the newly imposed lender oversight fees but it also applies to the cost of the 7(a) program overall. So why raise the lender fees on the very partners that we need and work with so effectively to provide capital and keep credit out there?

Administrator PRESTON. Well, the fee increase proposed in the year 2009 budget is just over five basis points. So, I mean, truly on a typical loan, it is pennies a day, and when we look at that, .05 percent that compares with 2.25 percent in Fed easing benefits.

Chairman KERRY. So you do not think their plea of impact is legit?

Administrator PRESTON. I think on the margin any time you reduce costs there is going to be some benefit. I think our fee increases going into 2009 are a very insignificant impact.

Chairman KERRY. But they do not believe that. You are at odds there with——

Administrator PRESTON. The primary issue I think he is addressing in that letter is a lender oversight fee so that we have the ability to go in and provide the kind of oversight we discussed not long ago in our lender oversight hearing.

Now, what I said at that time, Senator, was I think for most banks—the vast majority of the banks in our programs are not getting charged for this. We are really focusing on banks that have 10 million or more in SBA guarantees. And the majority of the funding from those banks, it is a relatively insignificant cost.

I do acknowledge, and we are working on this issue right now, there is a tier of banks that are big enough to fall into our heavier oversight category but small enough to still be relatively small where I think it is a cost issue. Right now I think it is about 12 basis points a year on their portfolio. So I have a team looking at how to address that tier of capital.

The much bigger issue which is a very different kind of situation, let me tell you. I have spoken to hundreds of banks and I speak with all the big banks and my people do too.

The bigger issue has to do with fundamental credit policies in the banks right now. Right now, if you look at the dollar volume in our programs, and actually the numbers are updated. Our numbers are down more than are actually indicated in that letter as of last week.

The dollar volume is down just over 7 percent. Five banks make up 100 percent of the decline we are seeing in the program. Two of them have made very significant credit pullbacks, a couple of the banks are going through mergers and pulling back from our programs, and then there is a fifth.

So what we are seeing is, in some of these bigger institutions, very significant changes in how they view credit right now and they are going through a period of time where they are trying to decide what their approach to small business lending is.

We are in the middle of a very active nationwide campaign to meet with senior members of the larger banks centrally. All of our district offices have literally hundreds of touch points that they are in the process of making with different banks locally to say, make sure you understand how our programs can help you cover loans that you would not do conventionally any more. Let us make sure that, if you are using one product, you look at all three or four products that we offer. And at the same time we are in the middle of an active outreach campaign to bring more banks into the program.

But I think to look at this as an issue of SBA fees is to understate the broader issue which is a much bigger credit philosophy that is being determined among many of our Nation's largest banks.

The other thing I would say is they are not all in the same place. Some of our banks are pushing forward and expanding credit, but a handful of them are really driving the biggest issue for us and we are tying very hard to roll up our sleeves, sit with them and work through with them how best to address these issues.

Chairman KERRY. You do not think that there is a cumulative impact in the sense that you have a fee problem here, you have a credit problem here, a whole issue of the economy and then it sort of——

Administrator PRESTON. I think there is a cumulative impact in some ways. The biggest impact I think is that we had an appetite for credit in our economy which I think was probably most heavily exemplified in the subprime situation but was reflective of a risk profile in other markets that led to lenders reaching too far and too hard. Now they are beginning to see their delinquencies rise and many of them are pulling back dramatically. That is not fee driven.

At the same time, however, we are increasing our fees on some lenders to improve oversight. But what I would say is, if there is any time we want good oversight in the market place, it is right now because of what we are seeing in delinquencies.

Chairman KERRY. We had that argument last year about the whole who should pay for oversight issue. Obviously you resolved it in favor of the government.

Administrator PRESTON. Well, we pay for most of our oversight. But there is a portion, the onsite, specific onsite work that we do, where we send people to the banks to do work, they pay for some of that.

Chairman KERRY. What is the difference on this fee? How much money would the SBA need to keep from raising the 7(a) lender's fee on a lending level of about $17.5 billion?

Administrator PRESTON. I would have to get back to you. Excuse me.

We are collecting about a total of $8 million in fees.

Chairman KERRY. $8 million?

Administrator PRESTON. For all of our lender oversight activities.

Chairman KERRY. What about the 504——

Administrator PRESTON. One of your staff members is shaking her head so we will connect with you afterwards to make sure that we connect the dot on whatever those numbers are.

I am sorry.

Chairman KERRY. No, I was just going to say, on the 504 program, why are you going to operate that program at a negative subsidy?

Administrator PRESTON. Well, the 504 fees, as you know, are coming down this year and that is primarily based on the fact—the annual fee goes from like 2.1 basis points down to zero. So that is actually improving in fees in 2009 and they are not currently being charged for lender oversight.

Chairman KERRY. I do not want to take too much time here because we have got a number of Senators. But on the microloans, help us understand how the SBDCs that have been cut 10 percent and the WBCs which have been cut 9 percent and then SCORE which is level funded, how do they take on the extra micro borrower clients—there were more than 2000 of them last year?

Administrator PRESTON. That is correct. I think there are two-and-a-half thousand loans we did last year but that is two-and-a-half thousand going into a network between SCORE, SBDCs and Women's Business Centers of over a million a year. So it is a tiny fraction of what they do overall. Two and a half thousand going into over a million.

So we do not view that as being, by any means, a significant increase in what they are doing. We do acknowledge, however, as you all have acknowledged in your opening comments, that we are proposing flat funding to our prior proposal which is a decline off the appropriated level.

Historically our stance on SBDCs and Women's Business Centers and SCORE has been we provide a significant base level of funding which then they go match through state and local sources or other nonprofit sources. Many of those organizations have been successful in expanding their funding by taking our base grant and going

and matching or exceeding that match. And, you know, our hope would be that they continue to do that.

Chairman KERRY. When you say your hope is that they continue to do that, I mean, is there not just a per se additional burden with less resource in a situation where they are already——

Administrator PRESTON. I think there is a burden on that.

Chairman KERRY. What is the rationale? Help us to understand. Why do you say we are going to cut you but do more?

Administrator PRESTON. Well, first of all, our budget was submitted when we had an expectation of it being flat rather than a cut, obviously, because 2008 was enacted subsequent to our submitting our budget. And our philosophy behind the flat funding is——

Chairman KERRY. But it is a cut, am I not right, 10 percent for the SBDC and 9 percent for the——

Administrator PRESTON. Right. Yes. It is cut.

Chairman KERRY. What is the rationale?

Administrator PRESTON. The rationale is, we will provide you with a very significant level of base funding, but as you expand your network, become more relevant to your community, we would like you to continue to expand your funding base outside of what the Federal government provides you and we will continue to give you that base level of funding, but you need to look for other sources to expand.

Chairman KERRY. Senator Snowe.

Senator SNOWE. Thank you, Mr. Chairman.

Mr. Administrator, the fiscal and philosophical underpinnings of this budget truly is troubling because we see this long-term pattern of underfunding of the Small Business Administration.

It troubles me for the future of these programs and for the agency because it is basically the eighth consecutive year that does not account for inflation in funding for the very agency that does create jobs. I asked my staff to list exactly what the agency accomplishes. I am sure you are well aware of it. Obviously there are others who are not, and that is troubling at a time in which we desperately need to have job creation, the activity where small business is on the front line.

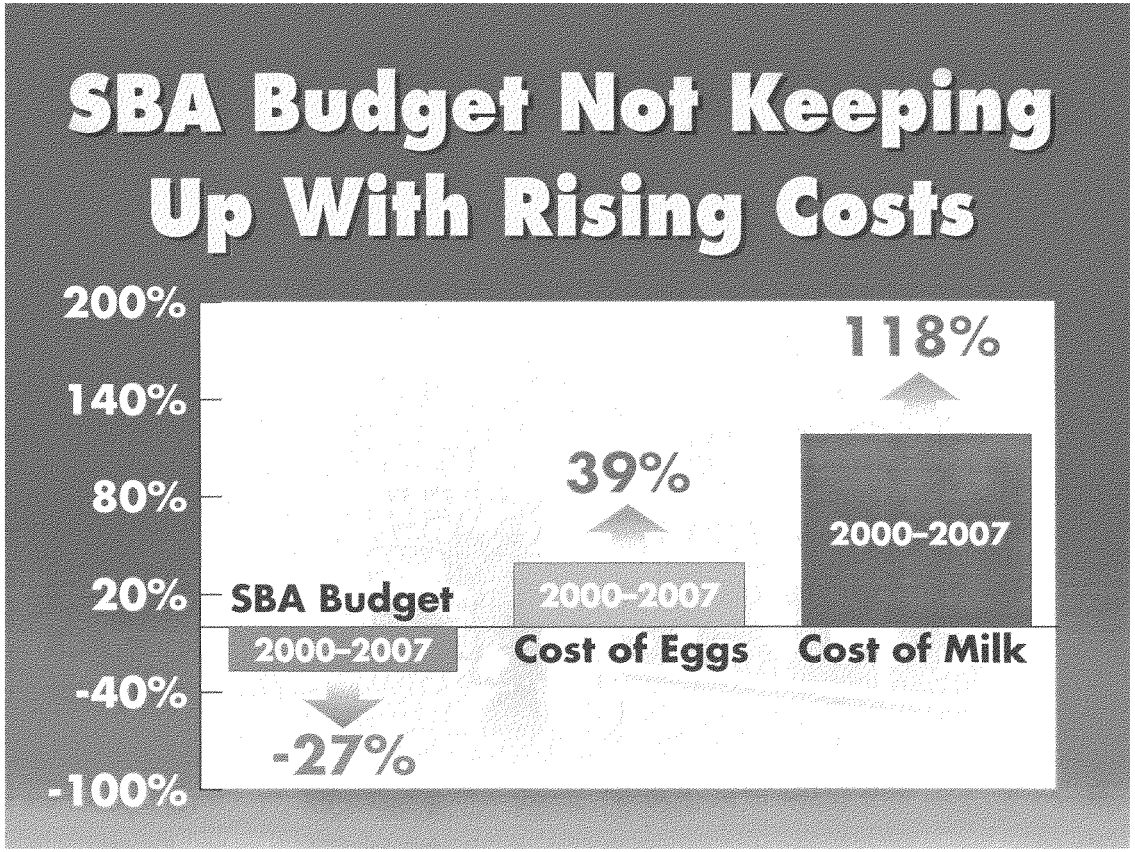
Going through those jobs created and retained by not all the SBA programs, but some of the core programs, we note that for small business federal prime contracts in fiscal year 2006, we have the latest year for which numbers are available: 578,760 jobs were created or retained; in fiscal year 2007 for the 7(a) loan programs, 605,600; 504 loans, 242,400; microloans, 62,000; and Small Business Development Centers, 144,000.

Those are substantive numbers for job creation and retaining our jobs rather than losing them. We are moving in the wrong direction. I do not quite understand what is the problem.

My staff also put a chart together. I thought it was interesting to make the point. We understand that every agency cannot have inflation built into its budget every year. We understand that, and especially now with the debt that has been compounded by long-term cost, but comparing milk and eggs just look at the inflation factor. That just gives you an illustration of how dramatic the inflation has been since 2001.

The SBA budget is minus 27 percent. The cost of eggs is up 39 percent, from about $2.87 to $3.87. The cost of milk is up 118 percent.

[See chart attached:]


SBA Budget Not Keeping Up With Rising Costs
200%
140%
80%
20%
-40%
-100%
SBA Budget
2000–2007
-27%
2000–2007
39%
Cost of Eggs
2000–2007
118%
Cost of Milk

We are talking about dramatic numbers here and yet the Small Business Administration has seen a decline of 27 percent. It is having to do more with less, and certainly, each of these programs have worked to be mightily efficient and they have been. But there comes a point in time that it becomes counterproductive and it does erode the basis for the program.

When we have a budget that is ostensibly presented by the Administration that suggests that it is an increase when, in fact, it is not, I want to get a better understanding exactly what is the problem. Is there not a recognition, for example, within the Office of Management and Budget that these are job creators? We get more bang for the buck in the small business programs. There is no other agency that creates these jobs like the Small Business Administration. It is demonstrated time and again.

Administrator PRESTON. Yes. Let me break that down a little bit and give you my view on what that means.

I think this agency has had a tremendous opportunity to figure out how to deliver what we do better, more efficiently, and it is not just about efficiency. It is about effectiveness.

I was thinking about this the other day, you know, moving from writing checks in a checkbook every day to going to online banking. Online banking is not only a lot more efficient, but any time I need information about my account historically, graphs or charts, whatever, I can push a couple of buttons and it is all there.

So there is an ability in an analogous way, there has been and there will continue to be an ability for us to improve the service we provide small business, do better outreach, take a lot of the administrative burden and streamline it and automate it so that we do better outreach. And that is why I am focused heavily, in part, on the core budget of the agency to be able to run and that is the piece that is increasing 6 percent. You know, with your support, it increased last year and the year before. And that is very, very important for us to be able to deliver what we do.

Then there is another group of programs which I know a lot of you care a lot about which, you know, our view is for what they deliver they are very expensive. That is not to say they do not reach important people or they do not do good work but specifically microloans and, Senator, you mentioned New Markets Venture Cap. There is a lot of additional funding that goes into those programs for every dollar that they invest.

And what we are trying to do with those is think about much more efficient ways to deliver capital much more broadly than those programs can reach. The microloan program right now only does about two-and-a-half thousand loans a year, but it cost us $18 million. New Market Venture Cap is a very small program but it is very expensive.

So those are programs, even though they reach important people, we are trying to pull back and say, how do we reach those communities a lot more efficiently through our network?

The third piece is the philosophical issue we just discussed which is what is the best way to provide support to our resource partners? Should we expect them to be able to expand the support they get outside the Federal government?

So, Senator, I am less concerned about our ability to operate the agency well because I think you all have provided us with funding to continue to improve what we do. And let me also mention. Over 2 years I think from 2007 to this 2009 budget we are adding over 100 people which we will put to good work, based on the expansion of the agency.

That is kind of how I look at it. I think we can run the place very well and improve our service. I think there are some key issues with the programs we have to determine philosophically where we should be on them.

Senator SNOWE. Would you not admit, though, that these programs are going to suffer accordingly? The net effect would be that we will create less jobs and preserve less jobs at a time in which we need and require them.

Administrator PRESTON. I think that our resource partners do a great job. They touch over a million entrepreneurs a year and I hope they can expand their funding base. I know it is not coming from us.

I also have to acknowledge, you know, when it comes to discretionary funding this year, the overall non-defense-related discretionary spending, that the budget is flat overall and so we are operating in a tight cost environment with respect to non-defense discretionary spending.

Senator SNOWE. But even in years when we had surpluses, we received budgets, prior to your tenure, from the Administration that proposed reductions. That is the problem. It is a compounding effect that ultimately is going to have negative consequences, because it is going to create less jobs and retain less jobs in a challenging economic environment that we find ourselves in and it is going to be the small businesses and the small lenders, as Chairman Kerry indicated with the stories that were in today's papers. That is the problem we are facing.

As credit tightens, it is going to be much more difficult. Once you reduce the amount of money available, when you increase the costs of providing it to small businesses in terms of loan assistance, when you eliminate technical assistance as you do in the microloan program, obviously it is going to have a negative impact.

Administrator PRESTON. Yes. What I would say is for the 7(a) and the 504 program, I really do not see constraints on our ability to expand based on what is happening in the agency.

I think economy-wide with a lot of the credit decisions we are in a whole different situation, but I do not think from a budgetary perspective, that is putting constraints on us.

And we would be happy to spend time with your staff to talk about specifically how these oversight fees impact different tiers of lenders and what they mean to us.

I appreciate your comment on the microloan program.

Senator SNOWE. For every job that we create by a microloan it costs $3,608. It really does provide a tremendous return. I know that has been true in my state. You have not recommended eliminating the program this time but now we are in a position where you are going to eliminate the subsidy and you are going to remove the technical assistance.

Obviously we are going to have to work on these issues on a bipartisan basis as we have in the past. Regrettably, that is what we had to do last year in order to restore it. But it is beyond that, and it bothers me because it is clear that it is shortsighted not to provide the kind of support for these programs when men and women in small businesses throughout our country could use these programs to the maximum and help to alleviate some of the economic downturn that we are now experiencing.

Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much, Senator Snowe.

Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman.

Let me follow up on Senator Kerry and Senator Snowe's point and I agree with the points that have been made here. Over the last 7 years, we have seen a significant reduction in effective resources that the SBA has had to deal with helping small business.

In my State and this Nation, small businesses is the economic engine. That is when the new jobs are being created, but it also offers opportunity particularly for minority communities and for women-owned businesses to grow in our economy.

My concern is, as I have listened to your testimony, Mr. Preston, I can tell you that on the ground the services are needed at a higher level than are currently being supplied by SBA.

On the loan and venture capital programs, I have met with many small business owners in my State and they are in need of greater help on the capital programs, on the venture capital programs and the loan programs. And it is just very obvious to me, as we are going through this economic downturn, the businesses that are going to be most effective are those that do not have the large capacity to withstand change in the economy, our small businesses.

And I just do not quite understand your testimony as it relates to the availability of resources to help small businesses as far as capital is concerned. I think we should be increasing the availability, making it less expensive, not making it more expensive in reducing the capacity to respond to those issues.

Administrator PRESTON. Sir, I think the one program where we are talking about pulling back funding significantly is the microloan program which makes two and a half thousand loans a year, two-and-a-half thousand very small loans a year. Once again, I think those people do good work. I think those are important businesses. But when you look at that more broadly, what we are to the economy or what we provide, there is nothing about our budget that would pull back funding. It is a zero subsidy program and until 2007——

Senator CARDIN. Well, my understanding, even on the 7(a) program, the economics of it is difficult for small businesses. We should be looking at ways of liberalizing that, it seems to me.

Administrator PRESTON. Are you addressing the fees on the program?

Senator CARDIN. Fees, yes.

Administrator PRESTON. OK. It is a zero subsidy program right now and let me just kind of throw a benchmark out there.

I think various people have proposed subsidizing the program, subsidizing the up-front fees. If we subsidize these programs, $150

million, I was doing the math yesterday, it would be 40 to 50 cents a day on our average loan for a borrower. The amount of money that, you know, if we look at a fairly sizable subsidy, the impact on those loans I just do not think moves the needle to the same degree that a lot of other people think they do.

Senator CARDIN. The facts are that the amount of loans being made available to minority businesses are not reflective of their number in our community. They are not getting, in my view, their fair share and I think cost is one issue.

Administrator PRESTON. Sir, our portfolio has five times the representation of women and the minority loans than the non-SBA economy. So we have very extensive minority outreach. We have very expansive penetration in the minority community, and frankly, the one category right now, one of the few categories that is growing in our portfolio right now is African-American loans in terms of their percentage of the portfolio.

Senator CARDIN. I would like to see those numbers.

Administrator PRESTON. We will go through all the numbers. I talked to one of your staff members a couple of weeks ago to say, I know this is a concern of yours based on the last hearing. We would love to go through all those numbers with you and through a recent study that was done.

Senator CARDIN. I really appreciate that.

Administrator PRESTON. Because I think this is where we have a very good story.

Senator CARDIN. Let me bring up my second point before my time expires and that is on government procurement, which I think is the second area where SBA can really help.

And the numbers that we have seen have been disturbing. We know that on the women procurement issues we were anticipating many years ago that we were going to improve there and then we come back with only four categories of Federal procurement that are going to be subject to these new rules out of 140 I think there was. That raises major concern for us as to whether we really have a good faith effort to help women-owned small businesses in government procurement.

And then second, an issue that has been a major concern for us for many years and that is bundling, which has a major impact on small businesses being able to obtain government procurement contracts.

Last year we did increase by a few the number of people and the PCRs that are helping, that their services are vitally needed. When those numbers were released, we could have used two or three in our State alone. I was hopeful that the budget would continue that by recommending additional support because that is critical to getting small companies into government procurement and monitoring the bundling problems within the agencies but it looks like your resources to deal with that will not be keeping up with the need.

Administrator PRESTON. Can I address those two points?

I feel very strongly that we need to separate, to some degree, the rulemaking process on the women's procurement rule which is the establishment of a set-aside program with the Federal government's performance on women-owned small business contracting. And although the Federal government does not hit its mandated 5

percent, I think we are somewhat over 3. Women's businesses grew a billion-and-a-half last year. They were the highest growth of any of the targeted small business groups. They hit a record level and they grew faster than any of the other areas that actually have setsides. We have very extensive outreach in the women's community and we are expanding that this year.

We are in the middle of a Federal rulemaking process. I understand some people do not agree with the direction we are going, but that is not the only thing that is driving opportunities for women in the Federal government. It is only one component and we are doing a lot of work and we are seeing a lot of success in advancing the ball.

We would be happy to spend time with you and go through those numbers.

The issue with the procurement center representatives. We are now, by April——

Chairman KERRY. Why would you not create the rule in a way that sort of incorporates that good effort?

Administrator PRESTON. Because the way the rule is designed is very specifically based on, and you all lived with the history of this rule well before I came to SBA, but I think the issues, if you will recall, the National Academy of Science set up a methodology for determining how to do this rule.

Chairman KERRY. We went through this sort of variation on your options, and you are doing that good job and you are reaching out the way you say you are to Senator Cardin which is very positive, I mean it is great to hear. Why not have the rule embrace that so that you are sort of in a sense codifying this pro-activity?

Administrator PRESTON. Because the rule is design to clearly capture those categories where women-owned small businesses are under-represented based on a methodology that was laid out by NAS.

Chairman KERRY. So, in effect, you are reaching out and expanding women-owned businesses that are not under-represented. Wouldn't it make more sense to target industries that are under-represented?

Administrator PRESTON. Actually it makes them more represented in categories where RAND would say they are currently fully represented. But I do not think——

Chairman KERRY. That is what I am saying. It makes them more represented where they are already represented.

Administrator PRESTON. Exactly.

Chairman KERRY. But the people you want to reach are the under-represented?

Administrator PRESTON. Well, first of all, we want to reach all people and we want to reach all people in our targeted categories.

I think the comment, and I do not want to put words in his mouth, but I think the issue we face on this, Senator Levin brought it up last time, which is, you guys have gone on a path where you really try to comply with the letter of the law. Those are my words, not his. And that is true. We looked very specifically at what NAS recommended. We took their recommendations and we implemented it based on that. Senator Levin's comment was, why would you not look at the policy objective and try to achieve that.

I want to remind everybody that the reason we got into this long timeline is because the original study that the SBA did in 2002 was basically thrown out for being methodologically indefensible. And a lot of those elements of indefensibility were the things that we tried to address in getting to that final rule.

So we put in place a proposed rule with significant discussions with other people in the Federal government or what we thought was a defensible rule that complied with the recommendations of the NAS.

Chairman KERRY. I yield back to Senator Cardin.

Senator CARDIN. I want to get to bundling. I do not want my silence to say that I agree with that. I think it somewhat defies logic that it is limited to four categories, but I will let you go on to the bundling issue. I do not think we are going to resolve it here.

Administrator PRESTON. Yes, the bundling issue is as follows, and by April we will be through a hiring process whereby we will have more procurement center representatives than we have had since 2000 and we have got another four in process to get hired. So we will be at the highest level than we will have been for many years.

But what I want to say is those are people that we put at the buying activities with other Federal agencies to review contracts. On the other hand, we have hired about 50 people on our field network and we also filled many open positions and hired many more to bring more people into the district offices, like your Baltimore office, that actually work with the small business. So those PCRs work with the Army Corps of Engineers or DOD or whoever.

We have expanded the number of people that are available to do small business training and outreach. We have significantly retrained them. And we are beginning to roll out tools and technologies that take away their administrative burden to free up more time so they can sit and counsel small businesses.

So we are addressing the procurement opportunity in a lot more ways than just the 66 PCRs out there. This involves hundreds of people through our field network.

I really want everybody to understand that because I think this is going to be an important part of our outreach to bring in more small businesses and women-owned small businesses and these other people into the contracting picture.

Senator CARDIN. And I want to agree with you. I think they are very valuable services, both parts of it, working with the agency and working with the small businesses so you get less bundling and we get better information to the small businesses of opportunity. I think both are critically important.

I would just question whether the numbers are right. I think you could use—just from the services that are available in Maryland, I can tell you we could use more help in our State and I do not think it is isolated to Maryland.

Thank you.

Administrator PRESTON. Thank you.

Chairman KERRY. Thank you, Senator Cardin. I would agree with that.

Senator Dole.

Senator DOLE. Thank you, Mr. Chairman. And, Administrator Preston, let me say again to you, I applaud your efforts——

Administrator PRESTON. Thank you very much.

Senator DOLE [continuing]. Toward trying to ensure that the SBA and its programs remain as effective as possible while perennially you are getting fewer funds with which to work.

And I just find it hard to understand, and this has been mentioned often this morning, why the President has either recommended flat funding or reduced funding year after year after year for the SBA since he has been in office.

Minus disaster relief funding, with the budget what the President has proposed for fiscal year 2009 amounts to another budget cut and one would think that at this particular point the SBA should have a funding increase, especially during the current economic downturn.

But I was particularly disappointed in the proposed cut with regard to the Women's Business Center Program and I am interested in what your plan is to adequately fund the existing centers and ensuring that money is available for graduated centers that would be eligible again for grants. And, in addition, do you plan on expanding the program to areas that are not currently served?

Administrator PRESTON. The program was effectively expanded when the recent legislation allowed graduating centers to come back into the program. So I think with that, we are up to 111 centers from, I think it was 98 or 99 before that. And we would anticipate continuing to fund those right now. Based on the current budget request, we do not see a lot of room to expand that in the current budget request.

Senator DOLE. Would you say that just a little louder?

Administrator PRESTON. We do not have the ability to expand that because, I believe, the legislation specifically states that existing centers get priority over new centers. Previously the way we were working this was a certain group of centers would graduate ultimately over a period of 5 or 10 years. Depending on their funding period, they would work to develop their own funding base. They would graduate and we would bring in new programs. Recent legislation has redefined that to say existing centers get priority for funding. So we would expect to continue to stay around 111 centers right now at the current level of funding.

Now, one of the things we had done is we have brought a number of the leaders of the Women's Businesses Centers into Washington and begun to talk to them about whether there is a way that we could begin working with them to share best practices, to do non-Federal fund raising, and how can we support them in their efforts to do so. So we have begun to collaborate with them on those issues. But for right now, for our funding, we are not looking for an expanded level.

Senator DOLE. Now, not only will they not be able to expand, but the current centers will receive less. So why did you not request more dollars?

Administrator PRESTON. I think we did admittedly get into some timeline issues with the timing of various pieces of legislation, the passage of the 2008 appropriation and our submission of the 2009 request. So a lot of those things kind of happened at the same time.

We were not operating in full clarity when we did submit our budget for 2009 on what was going to happen on a lot of these other elements.

Senator DOLE. One more question. I am very encouraged by the SBA's new disaster recovery plan.

Administrator PRESTON. Thank you.

Senator DOLE. How can we ensure that there are enough funds and other assistance available to carry it out in the event of a catastrophe?

Administrator PRESTON. Yes. One of the things I have really appreciated about the work on this Committee is the support of the disaster program. I know there are a number of elements that address our disaster program in the current farm bill.

And if you look at what is in a number of those provisions, I think many of them would provide us with a foundation to be able to sustain what we have built, there are a lot of things that we do today that are not in statute anywhere and this codifies those things, regular report-outs to Congress on how we are doing and a number of other things. So we are hopeful that we will be able to work with you on those elements of the farm bill. We think that will provide a real good underpinning to our programs going forward. So I think that is probably one of the best ways we can do that.

Senator DOLE. Thank you.

Administrator PRESTON. Thank you for your interest in this.

Senator DOLE. Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much, Senator Dole.

Mr. Administrator, we will do another round here in a little bit and see if we can get through this.

In February we enacted a veterans' small business bill. Obviously you are up to speed on the 7(a) pilot program for the Veterans' Energy Efficient Technologies?

Administrator PRESTON. Yes.

Chairman KERRY. And I know in the hearing with the House, you were asked why those pilot projects have not been implemented and you remarked that it was lack of funding.

Administrator PRESTON. That may have been somebody else's testimony. I do not recall having said that in the House.

I am sorry. Wait, Senator. There is a 7(a) subsidy piece that is right now not appropriated. I apologize.

Chairman KERRY. Well, on February 8 you were asked about the pilot loan programs to increase loans to veterans' businesses and those trying to invest in energy efficient technologies. And we believe that we drafted that language in a way that the SBA did not need funding to implement the program.

So can you share with us why you think you need funding to implement those programs?

Administrator PRESTON. Right. I think the veterans' program and energy efficiency bill both provided, I believe, a 50 percent subsidy on 7(a) loans. And those, based on our analysis, are deemed to be separate risk categories which would require a separate appropriation and would not come in under our current zero subsidy program.

Chairman KERRY. Do you have a judgment as to how much you need to be able to implement those pilots?

Administrator PRESTON. I do not off the top of my head, but we could certainly provide that to you based on anticipated volume.

Chairman KERRY. Do you have a program volume that you can use to estimate for the Committee, based on the amount of loans made to veterans in the past?

Administrator PRESTON. I do not have that for you today, but we could work with you to get that.

Chairman KERRY. Could you get that to us?

Administrator PRESTON. Yes.

Chairman KERRY. In other words, the bottom line is we would like to know how much money—if, in fact, it is an issue of not having money, we want to know how much it is because that is a priority program for the Committee and, you know, it is kind of an unfortunate charade if veterans are being told that Congress passed a bill to help them to get into business and then they try to do it and we say, well, there is no money.

Administrator PRESTON. Right.

Chairman KERRY. We did not intend for that. We thought the current fees were supposed to be able to pay for that.

Administrator PRESTON. Well, my colleague just gave me the number that we have in the veterans' piece. Assuming a $1 billion program, the cost would be about $42 million, and I think last year we had about just over $900 million in veterans' loans so that should be a good indicator.

Chairman KERRY. Do you know what the demand was for that specific category?

Administrator PRESTON. I think you are talking about two separate bills. So one of them, I think, provided subsidy for all——

Chairman KERRY. Right. One was for energy efficient technologies and one was for the veterans.

Administrator PRESTON. Right. There would not have been a category of energy efficient technology loans because, even though they can do them under the 7(a) program, we would not have anything that would code them as such. That would be a totally new concept.

On the veterans' side, we do have numbers that show annual volumes in veterans' loans. There were between $900 million to a billion last year. Assuming a billion dollar program, the cost would be $42 million.

Chairman KERRY. And where do you stand now with respect to funding that?

Administrator PRESTON. Both pieces we would need a separate appropriation. So what we would need to do, I think the veterans' numbers are a lot easier to size. What we would need to do on the energy efficiency side is to somehow gauge either through internal conversations or external, how big that program might be and give you a sense of what the funding would be.

Chairman KERRY. Is the veterans' component contained within your budget request now?

Administrator PRESTON. No, it is not.

Chairman KERRY. Is there a reason why not? Would that not be a major priority for this Administration?

Administrator PRESTON. Well, the veterans' bill was just passed and so it is not something we have been able to reflect in our budget and I know we have been having conversations with your staff.

Chairman KERRY. How do we get at it now? Will they ask for it in the supplemental?

Administrator PRESTON. What we would need to do is work with you in the appropriation process to get these funds appropriated.

Chairman KERRY. Will the Administration support funding for that program?

Administrator PRESTON. I do not know at this point. I need to work with my colleagues in the Administration and bring back an answer to you.

Chairman KERRY. So you do not know at this point whether or not you are willing to fund the veterans' program that was signed into law by the President? He would sign it into law and not fund it?

Administrator PRESTON. I do not have an answer for you on specifically subsidizing a veterans' 7(a) program.

Chairman KERRY. Will you get that for us?

Administrator PRESTON. Yes.

Chairman KERRY. How long will it take you to get that?

Administrator PRESTON. I do not know, but we will be in touch with your staff right after the hearing.

Chairman KERRY. Thank you.

Now, with respect to the Small Business Loan Reauthorization Bill, Senate 1256. This is a bill that had previously been passed when Senator Snowe was Chair and it is an identical bill that the Administration supported at that point in time.

You have stated publicly that instead of fee reductions or suspension of lender oversight fees, what the SBA really needs to do is encourage lending to reduce red tape and streamline its processes. That is exactly what Senate 1256 does. However, SBA issued a statement of Administration policy against the bill. I am having a really hard time understanding that. You support it when it is proposed by Senator Snowe. The Committee passes it out now and we have a statement of opposition.

Can you clarify for us?

Administrator PRESTON. I will have to go through the specific provisions in that bill and work with you on that. I do not recall specifically what elements of the bill the statement of Administration policy took issue with, so I apologize for that. But we will certainly provide you any clarity that we have.

Chairman KERRY. I would appreciate your trying to get that. We need to get this bill through the Senate. It has passed the Committee. It is in the Senate, sort of sitting there languishing. We just cannot seem to get even a precise articulation of why it cannot move forward and I would like to see us try to do that.

Senator Snowe?

Can we get your commitment, Mr. Administrator, to work with us to get that through?

Administrator PRESTON. What I will do, Senator, is I will confer with my colleagues in the Administration to get you a clear understanding of what specific provisions in the bill were an issue and make sure that we are communicating well in specific ways.

Chairman KERRY. Can we get that in writing?

Administrator PRESTON. Yes.

Chairman KERRY. Thank you.

Senator Snowe.

Senator SNOWE. Thank you, Mr. Chairman.

I wanted to discuss HUBZones, which is a critically important program because it helps to create jobs in areas that are impoverished, have significant under-employment, and a loss of manufacturing jobs. That has certainly been true in my State as it has been in some of the other parts of the country.

Why is it that we are still seeing under-funding for the HUBZone program, when the goals have not been met? Since the 10 years of its inception, it still has not realized the goal of 3 percent.

With the billions of dollars that are contracted by the Federal government why can we not direct these moneys to areas that desperately need it?

Administrator PRESTON. First of all, I appreciate your support of the program. I think it is a very important program for us specifically in markets where we need to see job creation and growth in income levels, and we did see a very significant increase last year although obviously we are not hitting the numbers.

If I recall off the top of my head, Senator, it was about $1 billion increase in the amount. I think what we need to do is continue to work more specifically with the procuring agencies to look hard at the HUBZone firms as an opportunity.

One of the things we did this past year is we rolled out a tool that helps contracting officers find HUBZone firms in the geography they are looking for, in the industry they are looking for, and also other firms. But they can stick in HUBZone if that is what they want to do.

And so I think we need to continue to get very focused on bringing that opportunity to Federal contracting officers.

Interestingly—this is sort of a side line—much of what we are seeing come through the HUBZone contracting is not even done with HUBZone set-asides. In other words, most of these are either being competed or coming through 8(a) set-asides.

So my concern is, which I think is also an opportunity for us, is that people are not looking at this in as focused a way as they might be looking at our other programs. I think the onus is on us to get out there and work with the Federal agencies who are doing the purchasing, to look at the HUBZone companies as a viable source of support.

Senator SNOWE. It seems like it makes so much fiscal sense, given the fact that the Federal government spends hundreds of billions of dollars in Federal contracts and Federal procurement, and you can direct it to established HUBZone firms in HUBZone areas that require infusion in funds to help rebuild these rural economies because many of them are in rural economies.

It would be a natural connection between the Federal government, with what they are already going to spend, to help direct those funds to areas that logically need it and can use it to build their infrastructure.

I just do not simply understand it. I also notice that it is not a line item in the budget. Where is it? Under general operating expenses for HUBZone? Why is that?

Administrator PRESTON. Historically it has been a line item because the line item significantly understates the amount of money we spend. I know one of the things that I think all of the agencies have been trying to do is take——

Senator SNOWE. Are you requesting more than $8 million?

Administrator PRESTON. No. The line item is smaller than a—the line item historically has been smaller than the amount that we have spent on it. So I think what we did is zeroed out the line item and moved that into the overall operating budget because the operating budget had a portion of HUBZone. The line item had a portion of HUBZone and we are bringing them together in the operating budget.

Senator SNOWE. It is a matter of priorities.

Administrator PRESTON. We are not reducing the budget in HUBZone and we continue to——

Senator SNOWE. It is a matter of priorities. I would like to see $10 million as a minimum for HUBZones given the purpose and the goal of the program which is what we need at this point in time.

It is all a matter of priorities and there are certain programs that have priority. There are programs within your agency that are of the highest priority and should be regarded in that respect.

Administrator PRESTON. Yes.

Senator SNOWE. Here is a good example as at this time we are seeing an extraordinary deterioration in rural economies, let alone the overall economy, because of the loss of manufacturing jobs. This is a time to help, to assist in rebuilding.

Administrator PRESTON. Yes. One of the other things we have done, and I should have mentioned this a little earlier, is in the process of some of the work we are doing that I mentioned in response to Senator Cardin's question where we have retrained the network and we are bolstering our support in the field for small businesses. One of the things we have directed PCRs to do is, if a small business set-aside comes up or if there is an opportunity for a small business set-aside, they are not only looking to make sure it goes to a small business set-aside, but they are looking to see if there are qualified firms in our other preference categories like HUBZone. Because we all acknowledge that women-owned business, service-disabled veteran-owned small businesses and HUBZone are not meeting the goal today even though we are making progress. So we have directed PCR specifically to look at those categories on new contracts to see if they can be driving more of the volume in those directions.

Senator SNOWE. I just want to say in addition to what Senator Dole said about women's procurement again, the Federal government has failed to achieve that goal since 1994.

Most of the governmentwide contracting goals have not been achieved. If you look at women, HUBZone, service-disabled veterans, overall small businesses have not yielded the goals that are required by law that is deeply disappointing because again it gets back to job creation.

Essentially since the beginning of this century we have been dealing with the same problems, frankly, and that is regrettable. Look at the database, to the point that Senator Cardin raised about bundled contracts, the Small Business Administration since 2000, the beginning of this century, was required to create a database, and that has not happened. And I understand, according to the Inspector General's report of 2005, the SBA did not intend to create a database because it could not get the Defense Department to supply the adequate information.

Is that true? Is it never going to be the goal of the Small Business Administration to create this database that is so essential to unbundling these contracts and also making sure that we can reach these procurement goals in each and every category as required of Federal agencies?

Administrator PRESTON. Well, I was not familiar with that IG report from 2000.

Senator SNOWE. 2005.

Administrator PRESTON. I am sorry, from 2005 specifically. But one of the things we are doing, Senator, and making it public and I actually think it is beginning to work, is goaling all the Federal agencies on these subcategories, making their performance public and rating them based on their performance.

And out of 24 agencies last year, 12 of them were red and that has done a lot for our ability to work collaboratively with the agencies and to put in place initiatives to help them meet these goals.

But the other thing I would say, and I would remind the Committee is, in 2005 and 2006 we underwent a significant initiative to clean up the data which took almost $5 billion of small business contracts or contracts that were coded as small business out of the database. Through the new certification, recertification rule, we are tightening up the rules on what is considered a small business. I think that will take at least that much out of the database.

So we are also, at the same time, making it tougher for those agencies to hit their goals by ensuring that small business contracts are, in fact, going to small businesses.

And so even though I think we have made a lot of progress historically, we are making it tougher for them to hit those numbers.

Senator SNOWE. Thank you.

Thank you, Mr. Chairman.

Chairman KERRY. Thank you, Senator Snowe.

Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman.

Mr. Preston, I want to return, if I might, to a couple of issues I talked about on my first round of questions on African-American opportunities under the loan programs.

The information I had is that the African-American population is about 12.8 percent. The number of loans under the 7(a) programs, although it has grown, is now about 8 percent of the number of loans which does not seem to me to be an effort to try to provide particular priority to African-American owned small businesses.

I also have looked at the numbers and it looks like the size of the loans have been reduced 53 percent between 2001 and 2006 from 181,000 on average to 84.5 thousand on average.

So it seems to me that the numbers do not add up to the priority that should be given to making resources available to African-American minority-owned businesses.

Administrator PRESTON. Right. I think it is important, Senator, to look at a number of factors. First of all, year to date, the numbers of loans going to African-American small businesses are actually 11 percent. And that is where I said we are beginning to see dramatic expansion in——

Senator CARDIN. Year to date beginning the fiscal year?

Administrator PRESTON. No. Last year, October 1.

Senator CARDIN. October 1.

Administrator PRESTON. And I am looking at my statistics as of last week.

Second, if you look at SBA loans, and I will get you the exact numbers, I am talking a little bit off the top of my head, but our loans are four to five times more likely to go to minority-owned small businesses than loans that are outside of the SBA sector, conventional private sector loans.

So we have, our portfolio is dramatically higher in its concentration of minority small business loans, women small business loans and startups. And if you look at historical studies on populations that have reported a competitive opportunity gap, it shows that we are very heavily serving those populations and that we are also a very significant portion of the capital that goes to those populations.

We would be happy to come and brief you on a recent Urban Institute study that shows the significance of our programs specifically to those groups.

The other thing I would mention, and this is a little bit to Senator Snowe's earlier comment on HUBZone, is when you look at our lending program, over a third of the loans we do go to areas in our country where we see higher poverty and higher unemployment, and last year I instituted goals for every single office in the country, not only in overall loans but two other areas, veterans' loans and underserved market loans.

Senator CARDIN. Let me just point out that the numbers that I have that over the last several years African-American minority-owned businesses had gotten only 2 percent of the 504 loans.

Administrator PRESTON. I will have to get you those numbers but I think the important thing to understand is we do a lot of outreach with banks. We do a lot of outreach with community development companies but we are ultimately a guarantor of loans that are made by private lenders. We do not make the loans.

So what we try to do through the staff in our district offices get out there, make presentations to groups, work with the banks to reach groups that we think are important that maybe are not getting the capital otherwise.

But, believe me, the efforts we have in many of the areas that you are targeting are very significant and I think we are a very differentiated force in the capital markets for many of the groups that you are referencing.

Senator CARDIN. I appreciate your response on that. I just would urge that the numbers be reflective, and I am pleased to see a significant increase so far this year.

Let me just make one final comment about the circumstances in my State of Maryland. I have been told the 7(a) loans are down about 40 percent in number and 25 percent in dollar amounts in the last year.

And if that is accurate and there is, I would just suggest to you that there is something happening out there with a credit crunch, and small businesses are being particularly vulnerable to this.

I would hope that we would be on the cutting edge, not the reactive edge, to try to help soften the problems that are being confronted economically in this country, and I think we have a serious problem in Maryland and around the Nation with small businesses being able to get affordable credit, affordable capital in this market.

Vendors are nervous. Everyone is nervous, and to me that is the time that the governmental agency, SBA, needs to be aggressive and step up and help so that these businesses are able to weather this unpredictable storm particularly as it relates to the credit market, and I am worried about what is happening in my State of Maryland.

Administrator PRESTON. Sir, I am not sure if I addressed this, and I am not sure if you were here when I mentioned this, but one of the things we are finding is the biggest impact on our programs right now are being driven by lenders that are pulling back very dramatically. All of our dollar decrease this year can be defined by five lenders, some of which are active in your State.

And so throughout the country we are undergoing a very extensive outreach effort with all the banks, both national banks, regional banks and local banks, to work with them to make sure that they understand fully how to utilize our programs. We have extensive recruiting efforts to bring more banks in and we are actually, and this is a little bit, under covers, but we spent a lot of time with banks over the last year to understand what inhibits them from using our programs. We are very actively focusing on what I think are the biggest issues to them in using our programs.

So we are putting a lot of muscle into our relationships with the banks. I am meeting with many of them personally to try to bring them into the programs, or expand their use of the programs where appropriate.

That having been said, many of the ones that we are talking, many of the most significant decisions are being made by banks that are really in the middle of some policy uncertainties and they are just, in many cases, not ready to move in one direction or another aggressively. We are trying to sit with them at the table as they go through that process to make sure that we can be as good a partner as we possibly can for them.

Senator CARDIN. Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much, Senator Cardin.

Senator Thune, welcome, sir.

Senator THUNE. Thank you, Mr. Chairman, Senator Snowe, for holding this important hearing on the SBA's 2009 budget request.

Administrator Preston, I want to thank you for taking time to be here again to testify. I know that the Committee and I appreciate you being here in person to discuss this important subject and I

also want to commend you for all the work that you have done at SBA since you became administrator 18 months ago.

Administrator PRESTON. Thank you.

Senator THUNE. We have seen a lot of progress and want to credit you with that and express our appreciation for your good work.

As we look forward to the next year and beyond, I am particularly excited about the Administration's commitment to better serve underserved markets. And as SBA moves forward with that goal, I would like to encourage the agency to continue to try and meet the needs of all underserved small businesses including those rural areas of the country, places like South Dakota, and on Indian reservations.

The Rural Lender Advantage Program is a good first start, in my view, in helping rural small businesses and I look forward to working with the Committee and the SBA to continue to target these businesses. And I am also additionally encouraged by the work that the agency has done in the past to help Native American small businesses and I know that my constituents strongly support these efforts, especially the tribal 8(a) program.

So again I want to thank you for being here today, the Committee for having the hearing as the budget process continues for fiscal year 2009. I look forward to working with my colleagues to find ways to strengthen small businesses and at the same time strengthen our Nation's economy.

And if I might, just a couple of questions. I mentioned this earlier, but SBA Region 8, of which South Dakota is a part, is going to be piloting the Rural Lender Advantage Program. I would be interested in a brief overview, if you could, of that project and perhaps if you could explain how it will help meet the SBA's goal of serving underserved markets.

Administrator PRESTON. Yes. One of the things we have heard over the years from small community banks is that our programs are challenging to understand and use. And if you are a big bank, you have a lot of people that can deal with paperwork and understand government programs. But if you are a little bank, it is tough.

As you and your two colleagues know, based on the states that you are from, community banks serve uniquely. They know their communities. They are relationship lenders. I think they are an important vehicle for capital.

So what we wanted to do was figure out how do we win back the community banks, especially during a time like this. So Rural Lender Advantage is actually a redesign of our 7(a) process with those three things.

Number one, it provides a very simple application for banks that have fewer than 20 SBA loans a year. We want to make it simple for them.

Number two, once they submit that loan, we actually approve them actively. Many of our loans we delegate that authority. Smaller community banks that do not have volume we do not. So we commit to a quick turnaround on the loan decision in a few days.

The third thing we do which I think is very important is we want to make sure that if the community banks are confused by the programs, have questions, we are very responsive. So we have a fully

staffed help desk that they can call and get responses to any questions. So simple application, quick turnaround time, high touch.

The last piece I would mention which is not unique to Rural Lender Advantage but we will certainly support is we have done a very extensive amount of training for our lender specialists in our field offices. Many of these people have gone through 2 full weeks of training, so that they can sit with those rural lenders, really teach them how the programs work, answer all their questions, help them with the paperwork.

We are about 6 weeks into the pilot I think right now, and yesterday we had a session in Colorado where we brought in a number of banks and a number on the phone. I think we had altogether about 70 banks and we got their feedback of the program. They are very encouraged by it. They gave us some suggestions on how to make it even more simple which we are working on and I am very hopeful that we will be able to roll it out beyond Region 8 within the next couple of months.

Senator THUNE. I appreciate that. It seems to me like a really well tailored program particularly in the area of the country that I represent.

Administrator PRESTON. Yes. Thank you.

I appreciate that, yes.

Senator THUNE. Hopefully it will be something that can be replicated elsewhere around the country as well.

Just one other question and that has to do with the fiscal year 2009 budget and the fact that there is not a specific line item in the budget this year for Native American outreach programs, and I guess my question would be why the SBA did include a line item for that program and what the agency anticipates spending on Native American outreach.

Administrator PRESTON. Yes. I think that number for 2009 is $1.7 million. I am looking at—$1.6 million, which is different from what the historic line item would have been. This is similar to my response to Senator Snowe's question on HUBZone.

What we have are a number of areas which have specific line item funding but the amount of money we spend on them in SBA, in some cases, significantly exceeds the line item. So generally in an effort to simplify these budgets, we are trying to pull them into the overall base funding which gives us a lot more flexibility but it is really as simple as that.

Senator THUNE. Thank you, Mr. Administrator.

Mr. Chairman, thank you.

Chairman KERRY. Thank you very much, Senator Thune.

Just a few more quickies. Then I think we will wrap up, at least from my point of view, and I will pass it to Senator Snowe.

Mr. Administrator, on the procurement center representatives, we have been pushing hard on the Committee for some time to try to increase those. My understanding is that not all of the PCRs that were budgeted for this year have been hired. I have heard that as few as 51, maybe as many as 57, are on staff.

But whether it is 51 or 57, it is way below the 200 plus that we had in the 1990s to review a much smaller budget. So can you help us get a sense of whether you intend to hire them? Is this just sort

of a, you know, resistance to the concept? What are we looking at here?

Administrator PRESTON. No. In fact, you know, I am the one who put forward expanding the number. As I mentioned, I think——

Chairman KERRY. Why would they not have been hired to date? I mean, why are we looking at such an incredibly low number compared to——

Administrator PRESTON. Yes. We should be at about 62 in about 6 weeks based on hiring actions and we are working on the paperwork to get to 66 which is our 2008 number.

Senator, by the end of this year over 20 percent of our PCRs will be retirement eligible, which presents us with a real challenge.

Bringing PCRs in is a challenge because we generally need them to be heavily trained in Federal procurement. So I do not like to give you a bureaucratic sounding answer. Frankly, it has been tough for us to stay ahead of the curve in getting these people in, based on retirements, based on finding the right people and getting their paperwork done to bring them in. But like I said, I think in about 6 weeks we will be at 62 which is where we had hoped to be——

Chairman KERRY. What is the difficulty in finding the right people? I would think in today's job market this would be pretty easy.

Administrator PRESTON. No. It is the expertise in Federal procurement. What you have are these people that are sitting generally in another agency looking at all of what they are doing and trying to work within that network to understand within procurement law and regulation which of those contracts can be going to companies that we feel should be represented, small businesses or small businesses in our preference categories.

So we cannot sort of take a novice, train them quickly and throw them in this situation with a lot of oversight. It is the kind of person that generally comes to the table with some deep skills already or we can find them somewhere else in our network.

And very frankly, generally when we have had positions, not only PCRs but even in headquarters where we need deep procurement expertise, those have been places where we have the hardest time finding people that are qualified to do the jobs.

But we are committed to getting the number up. I am very hopeful we will be at the 66 level in a few months which is what our 2008 target was.

The last thing I would say is we are undergoing a full staffing review at the agency right now to understand where our greatest needs are, where our greatest opportunities are. And certainly if we determine that we need to reallocate our head count in that direction, to expand it further, we are going to be looking at it very seriously.

Chairman KERRY. You have no judgment at this time whether or not those staffing levels are adequate?

Administrator PRESTON. I do not have a judgment at this time.

Chairman KERRY. The current number or the current goal?

Administrator PRESTON. I think overall our staffing levels are solid and I think historically they have not always been in the right places and I am very thankful for the support that you all have given us in expanding the head account. I think right now

where we are going to have the most immediate need are going to be, will be in our high volume processing centers that cover our lending programs and we do have some needs there. But beyond that, we will be focusing heavily on the field network whether it be PCRs or district offices.

Chairman KERRY. Fair enough. Let me ask you if I may about the 7(j) Technical Assistance Program. As you know full well, this is the way that the minority businesses get their training in the 8(a) program. We have heard a number of complaints about this. The lack of assistance coming out of it and/or the way it is being run.

There are two concerns I want to raise with you. One, originally the program was funded at about $3.6 million. The SBA operating budget includes only $1.53 million for technical assistance for 2009 which is a difference of a little bit over $2 million. This program has consistently been underfunded. According to the last report to Congress, there were 9,667 8(a) firms in the program.

So if you take the request that you have put forward, the $1.5 million, that is about $158 per firm. Can you share with us what kind of training people are getting for $158 per firm?

Administrator PRESTON. That is really only a small piece of the support that the 8(a) programs gets on the technical assistance side. We have business development specialists, hundreds of them in our field network. Many of the 8(a) firms get technical assistance from our resource partner network. This is really, as I understand it, a grant program to provide funding in targeted ways but is not, by any means, the lion's share of the technical support that those firms get.

Chairman KERRY. Well, even if it is on a targeted basis, can you tell us how many firms get targeted assistance?

Administrator PRESTON. I do not know specifically how many firms get support 7(a), 7(j) funds.

Chairman KERRY. How would we find out? What is the accountability for this technical assistance program which is pretty critical?

Administrator PRESTON. I will have to get back to you to understand how many firms get that assistance, but thousands of them get it through our district network and through our resource development partner network.

Chairman KERRY. Well, the second part of the question obviously and the second part of the inquiry here concerns a New York Times article that exposes that a contractor with no business consulting experience was given the 7(i) technical assistance contract. The IG is now looking at this and it raises the question: "Why would someone who has no qualifications to run a technical assistance program be put in charge of it?"

Administrator PRESTON. Well, let me make a couple of comments on that. First of all, I asked the IG to look at it. So I just want you to know——

Chairman KERRY. I know you did. I acknowledge that.

Administrator PRESTON. I just want you to understand that.

Chairman KERRY. Absolutely.

Administrator PRESTON. And the second thing is I really cannot comment specifically on it because there is an IG investigation

going on. It is something that I became aware of a couple of weeks ago and I would be happy to, you know, obviously keep your staff up to speed as we know anything on the ongoing investigation. But I do not want to make any prejudgments at this point on the quality of that vendor or the process under which that vendor received the contract because I just do not know and we have specifically pulled back and allowed the IG now to come in and take a look at it.

Chairman KERRY. That is obviously one concern. I have a series of questions about the overall oversight. I would like to, perhaps, have you follow up in writing if you can. I will submit them in writing.

But I would like to know what the oversight is, what has been done to ensure companies are receiving the training they are supposed to, have they been surveyed with respect to their judgments about the quality of the training they received.

Some of our 8(a) participants are actually asserting or claiming that the training is really nonexistent. And so we would like to really take a look at this. And I am inclined even to perhaps ask the GAO to help us take a look at it. I think we ought to get a handle on what is happening in terms of that training program.

Administrator PRESTON. Yes. I think that is a fair request. One of the things I will tell you is there is a compliance requirement that we have to do an annual review of all of our 8(a) firms every year. And last year we put in place a tracking mechanism, an accountability that every district office had to have 100 percent compliance. It is part of their scorecard now. They get tracked on it. It is part of what they get compensated on. And so we are doing whatever we can to make sure that—and then the other thing I mentioned a little earlier is we are taking a lot of the paperwork burden away from our business development specialists so that they can spend more time doing business development and outreach with 8(a) firms.

I am not convinced that it is where it should be and we would be happy to work with you all to get a better understanding of where it is and where it needs to go.

Chairman KERRY. Fair enough.

I have asked you on the veterans' thing. I am going to leave the record open and submit some of these additional questions in writing. They are not that complicated. I do not think we need to eat up our time with them now.

Administrator PRESTON. Right.

Senator Snowe.

Senator SNOWE. I have no further questions although I will submit some questions for the record.

Administrator PRESTON. OK.

Senator SNOWE. Thank you, Mr. Administrator, for being here today, and obviously we have got some work to do in trying to repair many of these issues as we have done in the past. Hopefully we can have a cooperative working relationship. I know we will with you and the Administration with respect to coming back and revising the President's proposal. Thank you.

Administrator PRESTON. Thank you.

Chairman KERRY. Mr. Administrator, I want to thank you also. I think you have been direct and articulate about rationales here for what you have done even though we may disagree with some of the choices made, obviously, but we appreciate your directness and taking the time to be here with us. It is helpful.

I hope we can work through some of these things. They should not be that complicated. There ought to be a way to find an agreeable path on a couple of the funding issues and certainly some of these mechanisms.

I think that you will find you will have a unanimous Committee and there ought to be broad-based bipartisan support for doing some of these things. So we look forward to working with you in the next days.

Maybe we can make some progress with OMB and a few folks over there to bend a little on a couple of these things particularly, for instance, like the veterans' funding piece which is so critical. I think the oversight component on 8(a) that we just talked about, procurement reps, a few of these are not that complicated.

When you look at this overall budget measured against, I mean, the bang for the buck here is so quantifiable and significant to a community, but so small compared to some of the other expenditures and requests, that this should not be an area of great contention frankly.

Administrator PRESTON. Thank you. Thank you both for your support and, you know, at any time if we can come up and brief you on some of the more detailed issues that came up here today—I know we are working with a number of your staff members—we would be happy to do that as well.

Chairman KERRY. Well, we appreciate it, and with that, this hearing on the budget will stand adjourned.

Thank you.

[Whereupon, at 11:58 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Senator John F, Kerry
Questions for the Record for Administrator Preston
"The President's FY2009 Budget Request for the Small Business Administration"
February 27, 2008

ACCESS TO CAPITAL:
When will the Committee receive the SBA's legislative package?

RESPONSE: We anticipate sending you the legislative package shortly.

Fair Isaac & Co. Credit Scoring
We are hearing more about how FICO credit scores can easily be manipulated and how they are no longer relied upon by many banks looking to extend commercial credit. Yet they are the foundation of the lender monitoring system that the SBA relies upon to predict problem portfolios. Specifically, the SBA has a contract with Dun & Bradstreet to provide a portfolio monitoring program that uses FICO scores as a major factor in assessing performance. As you know it is extremely controversial.

Is the Dun & Bradstreet contract part of the budget or is it paid for entirely by the participating lenders? How much does it cost?

RESPONSE: First, SBA disagrees with the presumption that credit scores are no longer relied upon by banks in their commercial lending. While it is true that many lenders do not use origination scores exclusively above certain thresholds, they do often use them in combination with other metrics, similar to what SBA does for loans of all sizes. And many lenders still rely exclusively upon credit scores for smaller commercial loans.

Second, SBA disagrees with the statement that credit risk scores "are the foundation of the lender monitoring system." SBA has never relied solely on credit risk scores in monitoring its lenders. Credit risk scores are only one component of the formula used in monitoring lender and portfolio risk; SBA relies on a combination of both loan performance and credit quality (risk) measures when assessing its lenders.

The cost of the Loan and Lender Monitoring System (L/LMS) in FY2007 was $2,834,829.06. A pro rata share of the cost is paid for by 7(a) lenders under the statutory authority provided to SBA by Congress to charge lenders for its lender oversight activities. Since the statute does not permit SBA to charge Certified Development Companies, the remainder of the L/LMS cost is included in SBA's budget.

We are told that FICO scores cannot be used to predict performance of a portfolio, only repayment of loans of less than $150,000. Why docs the SBA continue to use this measure?

RESPONSE: SBA's Loan and Lender Monitoring System uses a combination of metrics to assess lender risk. Credit risk scores are only one part of the overall lender assessment, and the credit risk scores use both business and consumer credit information. SBA's credit risk scores are validated on an annual basis using a number of different factors, including loan size. In all

cases, SBA has found credit risk scores to be consistently predictive of our key metrics of delinquency and purchase, including loan size ranges significantly higher than $150,000.

Finally, while it is true that many lenders do not use origination scores exclusively above certain loan size thresholds, they do often use them in combination with other metrics, similar to what SBA does for loans of all sizes.

Do you know if the Dun & Bradstreet program will be modified to reflect that FICO scores have become more unreliable in predicting whether a potential borrower has the ability to pay back a loan?

RESPONSE: SBA's Small Business Predictive Score (SBPS) – which uses a combination of both business and consumer credit information – has been consistently demonstrated to be one of the predictive factors in measuring the relative likelihood of loan purchases. The SBPS score is derived from a credit scoring model is validated on an annual basis to ensure its predictiveness.

It is important to note that credit risk scores are just one part of the formula used in determining lender and portfolio risk. SBA has never relied solely on credit risk scores when measuring its lenders through L/LMS and the Lender Risk Ratings – credit risk scores are only part of the overall lender assessment. A combination of metrics based on both loan performance and credit quality (risk) are used in the assessment of lenders.

COUNSELING PROGRAMS

At the hearing, you implied that resource partners could offset reductions in federal funds by increasing outside funding resources. However, foundations and state governments, which often have balanced budget amendments, are facing tough economic times. And, according to many Women's Business Center and Small Business Development Center leaders, the funding is simply not there. What is your response to this? What is SBA doing to help Women's Business Centers and Small Business Development Centers survive these shortfalls?

RESPONSE: The Office of Women's Business Ownership is working with each Women's Business Center to achieve budget efficiencies on SBA grants. In addition, OWBO is partnering with the Association of Women's Business Centers to provide training at the upcoming WBC conference in June, 2008 on topics such as leadership development, fundraising strategies, and best practices for center management. The conference will provide a forum for peer discussion, as well as providing expert speakers on these topics to spark dialogue.

As has been stated, SBA funding for Entrepreneurial Development programs provides only a portion of the funding used by SCORE, SBDCs, and Women Business Centers with those organizations raising match or volunteer resources.

Federal funding for the SBDC program provides the foundation of a national, predictable, and equitably distributed funding source for its local program partners to build upon. SBDCs draw from over 1,000 community funding sources including state and local governments, private

sector contributors, and non-profit foundations to match, leverage, and expand upon SBA funding.

Currently, local support is more than double SBA's funding and is the best evidence of program success on the local level, where clients are served. Partner commitment is evidenced by funding contributions.

Those SBDC programs that can demonstrate successful performance and impact to local funders are able to increase their funding beyond the SBA matching requirements and, in turn, expand service. It is through this local market test of demonstrated results that the SBDC program can and should expand its programs.

The SBDC Energy Efficiency program contained this language:
(9) IMPLEMENTAION.----Subject to amounts approved in advance in appropriations Acts and separate from amounts approved to carry out section21(a)(1) of the Small Business Act (I5 U.S.C. 648(a)(I)), the Administrator may make grants or enter into cooperative agreements to carry out this subsection,

However, the SBA chose to use core SBDC funding to implement the program. Why? What type of language would be required to prevent this from happening in the future?

RESPONSE: Congress appropriated $97.12 million "to fund grants for performance in fiscal year 2008 or fiscal year 2009 as authorized." The conference report for this appropriation, which has the status of a recommendation as to how the appropriation should be spent, states that the $97.12 million is for SBDCs. In the absence of a specific appropriation for the SBDC Energy Efficiency program (and the Veterans Assistance and Service SBDC grant program), the $97.12 million grant appropriation is the most appropriate funding source because the grants under the SBDC Energy Efficiency program (and the Veterans Assistance and Service SBDC grant program) are grants to SBDCs of a type similar to those made using the $97.12 million grant appropriation. The SBA worked closely with the ASBDC to develop a strategy for implementing the SBDC Energy Efficiency program (and the Veterans Assistance and Service SBDC grant program). The approach being used funds the new program while maintaining a higher level of funding for the core program.

By utilizing a cadre of over 11,000 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at very low cost. Since its creation, SCORE has assisted more than 7.2 million entrepreneurs, including over 400,000 in FY 2007 alone. However, the President has once again requested only $4.95 million -- the seventh year of flat or reduced funding for this program. Although the volunteers are free, the costs of space and new training programs, such as those available online, continue to increase and SCORE needs more funding to begin reversing the effects of years of under funding. Why does the Administration continue to provide funding at depressed levels for this program? In light of the continuing lack of funding, what are the Administration's future plans for this organization?

RESPONSE: The Administration values SCORE and continues to provide it support, in addition to appropriated funding, through collocation of chapters with SBA District Offices and other in-kind support. SCORE has proven successful in its delivery of programs and services at this funding level and in developing private sector partnerships like their recent partnerships with AmEx and Hewlett Packard.

In your budget you create a new program called the Emerging 200 initiative that creates training grants for inner city emerging businesses. What are the details of the program? Who will be doing this training and how have they been chosen? How will participating companies be chosen? Lastly, where is the money coming from to fund this initiative in Fiscal Year 2008?

RESPONSE: As part of the Agency's broader Underserved Markets Initiative, the SBA Emerging 200 concept was designed to support inner-city companies that have achieved local success and are ready for the next level of growth. The initiative will identify inner-city businesses in 11 cities [total of 200 companies] and provide these businesses with the network, resources and motivation required to build a sustainable business of size and scale within a designated Inner-City geographic location.

SBA is increasing outreach to areas historically challenged by high levels of unemployment and poverty. Bolstering entrepreneurial success in these areas will generate new jobs, attract investment, and provide a more sustainable economic base in distressed areas. According to SBA's Office of Advocacy, small businesses are the greatest source of net new employment in inner cities and account for 80 percent of total employment. However, the job growth rate in inner cities still lags behind the rest of metropolitan areas ("State of Inner City Economies: Small Businesses in the Inner City," Oct. 2005). SBA hopes to accelerate inner city small business growth in inner cities through the Emerging 200.

The SBA will provide a uniform, national training curriculum that will form the baseline for the initiative. Small businesses will be educated in the respective host cities about this opportunity through marketing and community based supporting organizations. Small businesses that will benefit the most from this training initiative will be headquartered in the inner-city, have achieved $400,000 in revenue, and be at least three years old. The SBA Emerging 200 initiative will enable the participating small businesses to engage in an intensive curriculum focused on developing a winning expansion strategy for their business, including options for capital access and government contracting. Participants also will have the opportunity to work with experienced mentors, attend workshops and develop connections with their peers, city leaders, and financial community.

Local designations were made after a competitive review process of proposals from eligible cities that included standard criteria. Eligible cities were those with 40,000 plus employment and job growth rates below one percent. SBA has designated 11 cities, Boston, MA; Baltimore, MD; Philadelphia, PA; Atlanta, GA; New Orleans, LA; Chicago, IL; Milwaukee, WI; Des Moines, IA; Memphis, TN; Albuquerque, NM and Oakland, CA that serve inner-city areas as local hosts for this initiative.

A program announcement has been published on grants.gov and the process is underway to select the training organization. The review of applicants and selecting the training grantee will be consistent with regulations and statute. SBA funding has been authorized, under Section 7(j) of the Small Business Act, to enter into grants, cooperative agreements or contracts, with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance under the Act. This assistance is delivered through the 7(j) Management and Technical Assistance Program to 8(a) certified firms, small disadvantaged businesses, and businesses operating in areas of high unemployment or low income or whose owners have low incomes. The purpose of the 7(j) Management and Technical Assistance Program [Section 7(j)(1) Small Business Act, 15 U.S.C. 636(j)(1)] is to help economically and socially disadvantaged businesspersons achieve competitive viability in the marketplace.

VETERANS:

As you know, on February 14, 2008, the President signed into law the Military Reservist and Veteran Reauthorization and Opportunity Act 0f 2008. Beyond the 7(a) pilot, where is the SBA on beginning to implement these changes? Do you see any barriers to implementing this legislation?

RESPONSE: We are developing plans and time lines for implementation in coordination with most of the primary SBA program offices with responsibility.

The SBA estimates that a subsidy appropriation of $28.5 million will be required to support reduced fees for the Increased Veteran Participation program for a full fiscal year.

I have also heard complaints from veterans that there is only one individual in SBA specifically handling veteran procurement issues. In light of the government's ongoing inability to hit the 3 percent goal, has SBA considered hiring additional FTEs to help veterans with procurement issues? Why or why not?

RESPONSE: While OVBD has a full time Veterans Procurement Liaison assigned to implementing our responsibilities, we also have other OVBD staff supporting these efforts. We are also working with agency PCRs in this effort, and we target veteran and service-disabled veteran procurement as part of our VBOCenter and DO-VOI initiatives.

US EXPORT ASSISTANCE CENTERS (USEACS):

According to the Commerce Department, each additional $1 billion in exports generates 14,000 American jobs. And these jobs pay 18 percent more, on average, than non-trade-related jobs. Therefore, the $1.9 billion in exports that the SBA USEAC staff facilitated in FY 2007 generated over 26,000 new high-paying American jobs in that one year. Although the President's request of $6.430 million is a slight increase over past funding requests, this does not reverse the years of Oat funding, and the program still bas fewer finance specialists at the USEAC hubs today than in 2000 (16 today versus 22 in 2000). This directly harms small businesses wishing to export goods and services.

This is such a successful program. Why is SBA not doing more to support it?

RESPONSE: SBA fully supports the international trade and finance programs delivered by OIT and has done so since the funding of this program was taken out of the line-item appropriation in 2000. SBA will continue to fund this important program from its general funding level on an annual basis.

The SBA's Senior International Trade and Finance Specialists working in the US Export Assistance Centers are now considered FTEs (full-time employees) of the Office of International Trade as a result of a reorganization completed during FY 2005. The 16 current FTEs now report directly to the Director of OIT, bringing more efficiency and oversight to this critically important program. As such, the budget process for OIT includes all the costs inherent with operating both the headquarters and field operations, such as local, domestic and international travel; rental payments and pro-rata share of expenses related to SBA's collocation with DOC in shared space; participation in inter-agency and multi-national initiatives (APEC, OECD, AGOA, etc.), just to name a few of the more frequent and costly operational expenses incurred by this specialized office.

We have actually just increased our number of USEAC-based staff with a recent hire in San Francisco, and we are completing the necessary documentation to fill the SBA USEAC position in New York City.

How does SBA plan to spend the slight increase in funding?

RESPONSE: SBA continues to provide expert technical and financial assistance through the U.S. export assistance center (USEAC) network around country. SBA's international trade specialists work with TPCC agencies and their representatives to deliver programs and services to small business exporters or new-to-export enterprises. SBA has every intention of spending any budget increases to support the travel expenses of this highly-specialized trade and finance staff relative to the large territories they cover; conduct international trade symposia, in concert with the Small Business Development Center Association and DOC; backfill SBA-USEAC positions where possible on a priority basis by exporter demographic studies; and support SBA's continued participation in representing small business exporters in trade negotiations with the US Trade Representative's Office.

Increasing the number of finance specialists should be the top priority. Does SBA have any plans to do so?

RESPONSE: As described, previously, will carefully explore all possible means by which we can increase the number of FTE trade finance specialists.

I have been told that the finance specialists need more traveling funds, since they are covering huge territories. Are there any plans to increase these budgets?

RESPONSE: The SBA employees located at USEACs across the country are responsible for regions that encompass several states. The employees at the USEACs get an estimated allotment amount of $10,000 each to cover travel because of expanded territories.

As you know, SBA has the capability and authority to provide loans to companies adversely affected by trade. Why is this program so underutilized? How many such loans were made last year?

RESPONSE: In FY 2007, SBA produced just three (3) International Trade Loans (ITL) that support small businesses that are victims of economic injury resulting from imports. The Department of Commerce's Trade Adjustment Assistance Centers should be able to provide the necessary documentation for eligibility without any additional paperwork from SBA. By statute, "the small business concern can submit, and SBA must accept, any findings of injury by the International Trade Commission or the Secretary of Commerce pursuant to Chapter 3 of Title ii of the Trade Act of 1974 (19 USC 2341 et seq.)" However, the availability of CAIP loans significantly reduces the attractiveness of the ITL program.

You have often talked about the importance of small companies to be internationally aware and capable. However, it is my understanding that, under this Administration, the head or the Office of International Trade must now go through three people before reaching you. Is that accurate? Why is this now the case? The Entrepreneurial Development Act, which Senator Snowe and I have worked on together, would elevate the head of this office to be a direct report to you. Do you support such a change? Why or why not?

RESPONSE: Office of International Trade currently falls under the domain of the Office of Capital Access due to the fact that the various international finance products (Export Working Capital Loan, Export Express and the International Trade Loan) are governed by the 7(a) loan program statutes, administered by Capital Access. Capital Access has an Associate Administrator and Deputy Associate Administrator who have the oversight responsibility for the program offices under its domain. We are not aware of any current mandate to alter this reporting status for the Office of International Trade.

If a change to this process should be invoked, SBA will take every action to ensure compliance to the premise that the Office for International Trade will diligently perform and execute its mission.

Senator Olympia J. Snowe Follow-Up
Questions for the Record
"The President's FY20009 Budget Request for the Small Business Administration"
March 14, 2008

HUBZone Program

In last year's congressional submission (Fiscal Year 2008), the SBA stated that its HUBZone office had planned to perform more outreach for states, counties, and cities across the nation. However, in this year's submission for Fiscal Year 2009, the SBA fails to list any accomplishments from last year's budget. What is the SBA doing with the local communities to increase small business utilization of the HUBZone program?

RESPONSE: During FY 2007, the HUBZone Program Office completed a marketing campaign directed to State Offices of Economic Development. This marketing effort included a specialized package of information identifying the potential benefits of the HUBZone Program and a map of qualified HUBZones areas in each state. The basic idea of the campaign was to increase awareness of the Program at the state government level and to encourage states to assist SBA in marketing the program to qualified areas and potential applicants. Program marketing at the local level is the primary responsibility of our district offices. Each SBA district office has a HUBZone Program liaison that represents and markets the Program within their community. The HUBZone Program Office has provided on-going marketing instruction to district personnel in order to assist them in marketing the Program within their respective districts. Follow up training for our district liaison staff is conducted on a regular basis through monthly conference calls.

Procurement Center Representatives

In hearings over the last several years, including an SBA reauthorization hearing in 2006, the SBA argued, in front of this Committee, that its new e-PCR electronic system would greatly supplement the PCRs and would use technology to review every contract that is not set-aside for small business. It has been several years since the SBA's commitment to the e-PCR electronic system. Is the e-PCR electronic system operational and being used? If not, when will this critical tool actually be up and running? How many PCR's does the SBA currently employ?

RESPONSE: Once implemented, SBA expects that Electronic Procurement Center Representatives (EPCR) will be a critical tool in increasing procurement, ensuring opportunities for small business, HUBZone, small disadvantaged business, service-disabled veteran owned small business, and women owned small businesses.

The Agency developed functional requirements for the system during FY 2006. During FY 2007 SBA awarded a contract for validation of functional requirements and systems development planning, including documentation of the business case. This effort is on-going through FY 2008.

SBA continues to hire additional PCRs and will increase the number of PCRs to 66 by the end of this quarter. By the end of this year SBA will have increased the number of PCRs from 53 to 66.

This represents an increase of almost 25% in the PCR workforce. We are committed to maintaining a full complement of sixty-six procurement center representatives (PCRs) that will be sufficient to support attainment of statutory small business and socioeconomic procurement preference program goals.

Women's Business Centers

For FY 2009, the SBA has requested $11.88 million in funding for Women's Business Centers (WBCs), the same level that was requested for FY 2008. The Administration has made this unreasonable request although the SBA knows that they are supposed to open more centers in FY 2009 than they had in FY 2008. On page 50 of the SBA's budget request it reads: *"In FY 2008 the portfolio of WBCs will consist of 52 initial grant centers, and 43 sustainability grant centers for a total of 95 WBCs, and a potential for 20 previously graduated centers to apply for renewable grants. "*

Why did the SBA request the exact same level of funding for FY 2009, as it did for FY 2008, knowing that it would have to provide funding for 20 returning centers?

What will be the effects of this level of funding on WBCs? Will all centers receive their full grant amounts? How much will the SBA have to decrease normal grant amounts under this funding level? Will the SBA be able to open any new WBCs?

RESPONSE: In FY2009, the portfolio of WBCs will consist of 42 centers in the initial funding phase; 39 centers in the sustainability phase; and 31 centers in the new renewable funding phase (of which 21 are returning graduated centers) – totaling 112.
The WBC program funds center operations in advance – specifically the 2008 appropriation funded 2009 grants, but also funded the return of 21 centers into the program during the 2008 current performance year. This necessitated that funding for all phases of the program (grants for the 2009 performance year) be reduced to accommodate the extra demand on the 2008 appropriation level created by the new legislation.
We will not open any new centers in the 2009 Fiscal Year, as center operations for 2009 are funded with 2008 appropriations. Depending on the amount appropriated new centers may be opened during the 2010 fiscal year. The Agency has asked for funding consistent with last year's appropriation. The SBA wishes to maintain a level of predictability for those already in the program.

504 Loan Program

Is the SBA planning to propose legislation to deal with the negative subsidy issue for 504 participants? If so, when could the Committee expect to see the legislation? If not, why not?

RESPONSE: SBA does not plan to submit legislation to deal with the subsidy as it views it as a one time issue. It is not likely to be an issue next year given recent increases in the rate of delinquencies and debenture purchases.

The increase in the SBA portion of CSA fee from 0.022% to 0.069% (effective July 2008 thru

July 2009) reduced the 504 subsidy rate for the 504 formulation cohort 32 basis points. If the SBA portion of the CSA servicing fee had not increased the subsidy rate for the 504 program in 2009 would have been zero and the ongoing borrower fee would have increased rather than being reduced to zero.

7(a) Loan Pilot Programs

Since it has been determined by the Administration that appropriations would be needed to implement the Pilot Program for Reduced 7(a) fees for the Purchase of Energy Efficient Technologies and the Increased Veteran Participation Program, how much subsidy would be required to run the programs for a fiscal year? Please explain how the subsidy amounts were derived?

RESPONSE: The SBA estimates that a subsidy appropriation of $13.1 million will be required to support reduced fees for the Increased Veteran Participation program for a full fiscal year. The estimate is based on a subsidy rate of 1.14 percent times a projected loan demand level of $1.15 billion.

The SBA estimates that a subsidy appropriation of $2.6 million would be required to support reduced fees for the Purchase of Energy Efficient Technologies program for a full fiscal year. The estimate is based on a subsidy rate of 0.83 percent times a projected loan demand level of $311.5 million.

7(a) Fees:

The current economic situation justifies concern about the fees lenders pay in the SBA's loan programs. This budget increases the 7(a) fee rate to .55 percent, which will cost lenders roughly $60 more per year, per loan, on loans around $100,000. The fee increase will be much higher on larger loans. Additionally, this budget raises almost $9 million dollars from lenders for lender oversight fees. Lenders argue that these increases will drive them out of the 7(a) program at a time lending to small businesses becomes increasingly necessary to spur economic growth.

What should be done about increasing fees on SBA lenders? Does the SBA support subsidizing the 7(a) loan program, or repealing lender oversight fees? If the SBA does not support either of these options, what does the SBA propose to do to address the issue of increasing fees during this economic slow down?

RESPONSE: SBA believes that the program as currently structured provides the agency with predictable budgetary resources to manage the 7(a) program, without the risk of a shutdown of the program in the event appropriated funds are unavailable. In addition, in conversations with the lending community, it has been apparent that other factors, including premiums received for loans sold to secondary market investors and the effect of interest rates on loan demand, are far more critical determinants of lenders' decisions regarding their SBA lending efforts than the fee structure.

However, SBA recognizes that it needs to make its programs more efficient and less costly to its lenders, and the agency is working hard to do so. For example, SBA has invested heavily in

process improvements in the National Guaranty Purchase Center to speed up the purchase process and reduce the turnaround time for purchase payments. The agency has increased lenders' ability to update their files online, instead of a time-consuming manual process. SBA has also released a streamlined set of operating procedures for SBA SOP 50 10, to improve lenders' understanding of SBA processes. And we have reduced the time and cost of processing 7(a) loans by giving lenders delegated lending authority through the Preferred Lender and Express programs.

Microloans

In Fiscal Years 2001 through 2007, the SBA has financed more than, 17,000 micro loans worth $224 million to small entrepreneurs, with an average loan size of $13,000. The program provides small loans to entrepreneurs who have no other available options. The SBA's Office of Advocacy calculates that the microloan program created or retained one job for every $3608 in loans, equating to over 62,000 jobs.

As the numbers show, this program has clear benefits to the smallest entrepreneurs - so with this in mind: 1) Why does the Administration target this program specifically year after year? 2) If the cost of capital continues to increase, will the lending intermediaries be able to maintain their lending programs and continue to reach borrowers that conventional lenders cannot serve? 3) What safeguards are in place to prevent additional costs from being passed onto the small business borrowers that the program is ultimately set up to serve?

RESPONSE: The microloan program is one of the most expensive lending programs SBA has, costing 88 cents for every loan dollar expended. In addition, SBA has much more cost effective ways of reaching borrowers with financing needs under $35,000, especially in minority and underserved markets. The cost of the 7(a) program is only 0.3 cents for every dollar lent.

- More importantly, SBA's much larger 7(a) loan program is producing far more loans in the microloan size category than the Microloan program does.

- Last year, nearly 46 percent of all 7(a) loans approved were made at the microloan funding level ($35,000 or less). That's 45,670 microloan-sized loans delivered by the 7(a) program, worth almost $915 million. For the sake of comparison, SBA's official Microloan program provided just 2,435 loans amounting to $31.4 million.

- In other words, the SBA's 7(a) program delivered more loans in the microloan-size category last year alone than the official Microloan program has delivered in its entire history (45,670 7(a) under $35,000 in FY2007 versus 28,195 microloans).

In addition, given that the most commonly used alternative financing for these small dollar borrowers is credit card or usurious unregulated lending sources, the cost of capital in the 7 (a) program and the microloan program is not a barrier for SBA's small business borrowers in either program, even under a zero subsidy sceanario for microlending. The cost of capital from these sources is routinely 500-1200 bp more expensive than SBA's highest priced financing presently.

Management Structure Changes

As part of Administrator Preston's reengineering and quest for transparency and accountability, the Administrator made changes, which he had the flexibility to make, to the Agency's organizational structure. In a January 8, 2007 letter to Senator Snowe, the Administrator asked for help in changing four of the titles that require statutory changes. However, the draft organizational chart attached to the letter of January 8th, indicates that there are more than the five "Associate Administrators" authorized in section 4(b) in the Small Business Act. Please address: A) why the SBA is not currently complying with current law; and B) any specific additional changes and the rationale, other than the four statutory titles, the SBA needs to have the necessary management flexibility to better meet its mission?

RESPONSE: Based on the signed Form 606 dated January 8, 2007, by Administrator Preston, the purpose of the realignment was to clearly delineate the reporting levels, operational responsibilities and functionality of the respective offices and to more accurately define the operational and functional responsibilities. Further, it established a new titling process for major organizational entities to conform to the common usage across the federal government.

The previous SBA organizational structure had 13 of its organizational units reporting to the Administrator/Deputy Administrator through the position of the Chief Operating Officer (COO). In, addition, the structure implied that the Agency had four major programmatic organizational units: Office of Management and Administration (OMA), Office of Capital Access (OCA), Office of Government Contracting and Business Development (OGCBD), and the Office of Entrepreneurial Development (OED) at a higher organizational level than the remaining 9 organizational entities. The previous structure had two of SBA's largest organizations, the Office of Disaster Assistance (ODA) and the Office of Field Operations (OFO) below the major program functions, even though these offices have approximately 64% of the on-board staffing, and are program offices central to SBA's mission. The previous organizational structure also did not align its administrative support functions in such a manner as to indicate the broad support each of these elements provides to the overall SBA programs.

The realignment:

1. Eliminated the COO as a separate and distinct office and integrated the functions into the Office of the Administrator.
2. Aligned OED, OGCBD, OCA, ODA and OFO as equal organizational units with each office head using the new organizational title of Associate Administrator.
3. Grouped OMA, Office of the Chief Information Officer (OCIO), Office of the Chief Financial Officer (OCFO) and Office of the General Counsel (OGC) together organizationally to indicate the broad Agency support role they provide.
4. Established within the OCFO a new organizational element, the Office of Performance Management.
5. Transferred the Office of Strategic Alliances (currently part of OFO) to the Office of Communication and Public Liaison.
6. Established a new titling process as follows: Associate Administrator, e.g., OCA, OED, OGCBD OMA, ODA, OFO and the Office of Performance Management and the Chief Financial Officer. The Deputies to the new Associate Administrator change to Deputy

Associate Administrator. Any other offices reporting to the Office of the Administrator use the title of Assistant Administrator. Organizational elements reporting to these levels use the title of Office Directors and below that use the title Division Chiefs. The only exceptions are Chief Information Officer, Chief Human Capital Officer, General Counsel and Deputy CFO.

With respect to the four statutorily defined titles of Associate Administrator for Investment, Associate Administrator for Small Business Development Centers, Associate Administrator of Veterans Business Development and Assistant Administrator for Women's Business Ownership, SBA will propose legislative changes to have these titles to comport with the new SBA titling practices.

SBA will propose legislative changes to the Investment Division title to become the Office of Investment.

Veterans Business Outreach Centers

Please provide the number of veterans served by Veterans Business Outreach Centers since their inception, the types of services they received, as well as the results achieved?

RESPONSE: Please see attached grid.

Although nearly 1.7 million Americans have been deployed since 2001 .in support of Operations Enduring and Iraqi Freedom, funding for the SBA's Veteran Business Outreach Center Program has remained nearly static for years. In fact, the Administration is only requesting $743,000 for this program - a mere $128,000 more than it requested as far back as 2000. How can this be? Why is our level of commitment so low at a time our veterans are being called upon so much?

RESPONSE: The VBOCenter program has continued to serve as an important & OVBD specific program for veterans and reservists, but the approach the agency has taken is to grow our primary and larger business outreach, business counseling and financing programs for veterans and reservists. Our OVBD funded District Office-Veterans Outreach Initiative (DO-VOI) assisted almost 20,000 veterans, reservists and family members in FY 2007, and it engaged SBA field offices in local partnership with hundreds of local and state based veterans and reservists serving organizations. OVBD also strengthened the agency SBDC program for veterans and reservists by including a number of specific initiatives in our agency program agreements with all Lead SBDCs. This is leading to increased and more focused outreach, counseling and training events specifically for veterans and reservists. In addition, SCORE enhanced its on line assistance by targeting counseling specifically for veterans, service-disabled veterans and reservists. We also enhanced our surety bonding program specifically for veterans and service-disabled veterans, and we created the 7a Patriot Express Pilot Loan Initiative targeted to the military community, including veterans, service-disabled veterans, Reserve Component members, TAP eligible discharging service members, spouses and widows.

We also continued to strengthen our collaborative efforts with DOL VETS and with the DOD Assistant Secretary for Reserve Affairs and the Department of the Army. This is all reflective of building a more robust agency engagement with veterans, reservists and family members. And finally, OVBD responded to requests for more than 75,000 SBA veterans and reservists program Kits, guides and materials, to more than 100 divergent public and private organizations, including DOD, VSO, States, SBA partners and others.

SBDC

Senators Landrieu and Vitter recently held a hearing in Lake Charles, Louisiana, exploring the SBA's role and response to the Gulf Coast storms. During the hearing, Donna Little - Director of the McNeese State University Small Business Development Center - spoke about what the SBDC has done and is currently doing to help small business recovery in Southern Louisiana. Since October 1, 2005, with minimal funding, the Louisiana SBDCs that serve the Southern part of the state have provided 6,750 small businesses with one-on-one consulting and given related training to 14,000 additional businesses.

For years the SBA has insisted on flat-funding the SBDC program, and after the Gulf Coast storms, Louisiana's SBDCs were not eligible for immediate additional funding from the emergency supplemental. Unfortunately, SBDCs in Louisiana, which were vital to the recovery effort, were not able to receive additional grant funding for up to a year after Hurricane Katrina.

Immediate funding would have allowed the SBDCs to hire additional consultants and get more experts on the street to provide technical assistance to disaster victims. In the wake of a catastrophic disaster, SBDCs are a resource that should be leveraged and fully exploited by the SBA. 1) What has the SBA done to ensure that SBDCs play a more prominent role in the Agency's immediate disaster response? 2) What can the Agency do to make the SBDC program eligible for immediate supplemental funding?

RESPONSE: The SBA developed and released a Disaster Recovery Plan for its OED Partners last year which can be found on the SBA website (www.sba.gov). This Plan was developed under the leadership of SBA's Deputy Administrator and after numerous consultations with the ASBDC and the other ED resource partners. The Plan, crafted with the input of SBDCs, goes into great detail on the role of the OED partners in assisting victims of disasters only a small part of which is mentioned here. Partners within OED's resource network are able to perform a range of recovery functional roles in general. For Level I and II disasters (fewer than 250,000 applications received), such efforts include business counseling, loan application preparation, and other services that may include SBA or other local recovery products. As many partners receive local matching funds, they play a role with state entities that work with local communities dealing with smaller scale disasters. Accordingly, some services provided to small businesses are limited by the expertise or skill sets of local counselors.

SBA would call upon a wider group of partner representatives during Level III and IV disasters (greater than 250,000 applications). Anticipated functional roles performed by resource partners might include:

- Making potential applicants aware of SBA's services and handing out disaster loan applications,
- Screening and interviewing – helping applicants complete documents and collect requisite background information,
- Application assistance,
- Direct counseling assistance to help small businesses,
- Financial record reconstruction,
- Alternative marketing for small businesses to reach current/new customers,
- Business support groups in conjunction with SBA efforts, and
- Other general small business counseling and training.

Immediately following any declared disasters, an assessment of recovery assistance is conducted by SBA. The assessment will include anticipated needs for additional resource partner representatives to assist with small business recovery, the extent and schedule upon which additional resource partner representatives will arrive in the disaster impacted area, and the availability of resources to accommodate the arrival of the additional resource partner representatives. We anticipate that recovery during Level I and II disasters will draw upon local/regional resource partners while recovery during Level III and IV disasters will require participation from partners across the nation.
During catastrophic or large scale recovery efforts, the resource partner network is capable of providing approximately 125 total representatives per week contingent upon additional support from SBA to off-set costs and coordination of logistical support services (SBDCs estimate they can provide 40-50 persons/week). Resource partner representatives would generally be available to serve for approximately one-to-two week shifts with brief breaks to return home and complete another future shift as recovery needs demand. Resource partners have generally committed to performing surge capabilities for up to 90 days. Longer term commitments can be revisited with resource partner principals during the course of a recovery based upon on-going surge needs, available resources, and updated recovery plans.

In the event that Level III/Level IV assistance is needed, SBA would issue invitation letters to additional counselors. This would allow SBA to reimburse for basic travel, room and board with SBA funds.

Statutory barriers that should be addressed include allowing SBDCs working across state lines and on-site logistics such as the prohibition against partners being passengers in federal vehicles. SBA's legislative package has requested authorization legislative language which would more easily allow for SBDC counselors to provide disaster assistance across state lines.

SBA and the OED resource partners have already developed a working agreement to adjust performance goals for centers/chapters that participate in disaster recovery surge efforts. The goal adjustment would reflect the possible decreased performance delivered in a partner's local area due to their staff/volunteer being deployed to a disaster impacted area.

SBA is committed to utilizing resource partners in the execution of disaster recovery efforts and pre-event planning. In addition to providing input and feedback on the Disaster Recovery Plan, SBDC directors and counselors provided substantive feedback on the new disaster loan application while it was still in the developmental stage. As a result, the new application incorporates the views of counselors who play a critical role as early responders.

During the execution phase, the Disaster Recovery Plan calls for a centralized coordinating model that provides for identified points-of-contact for each partner, expedited decision authority/approval, frequent communication within the SBA network (including community-wide recovery efforts/players), and co-located recovery services (where possible) as preferred by resource partners. For SBDCs, the President of the ASBDC has agreed to serve as their central point-of-contact regarding disaster recovery.

Cosponsorship Authority:

I am troubled that year after year, the Administration seems intent on cutting real dollar funding to SBA programs which help our nation's most vulnerable businesses. According to the Office of Management and Budget, since President Bush took office in 2001, the SBA has had a 27 percent decrease in discretionary funding - more than any other Federal agency.

I find it especially troubling that the Administration has chosen not to buck this trend in the Fiscal Year 2009 budget, even as our nation's small businesses face a serious economic downturn. As funding has decreased,

What has the SBA done to leverage assistance outside of the Agency?

RESPONSE: SBA district offices, and headquarters offices, actively seek opportunities to partner with for-profit entities to conduct cosponsored activities for the benefit of small business. To leverage outside assistance, the SBA has undertaken several initiatives:

- Educated agency staff on both identifying possible partnerships and developing them.
- Provided forums for district directors to share best practices on their own events,
- Sample Activities:
- Agency is working with a corporate partner to create two webinars, one on building business credit and the other on monitoring business credit. The webinars will be offered in English and Spanish and will also include a CD and print version.
- Agency is working with external partner to expand educational content of www.mindyourownbiz.org, a website that is teen focused. The site walks visitors through the steps of business ownership, from a brainstorm for a business to the business venture that you have worked on for several years.
- Agency is working with local educational institutions and associations to cosponsor a lenders conference for banks, CDCs and other commercial lending professionals. The conference will cover SBA lending and commercial credit issues.

What programs does SBA have in place to educate small businesses about assistance outside of the SBA, assistance offered by Federal and state governments as well as the private sector?

RESPONSE: The SBA, in partnership with 21 other federal agencies, manages the official business link to the U.S. Government, Business.gov. The partnership known as Business Gateway provides a single access point to government services and information to help the nation's business with their operations.

With the SBA's limited budget, in what ways will the SBA use their cosponsorship authority to expand their ability to help small businesses?

RESPONSE:

Guidance:

The agency issued a new SOP to provide guidance on cosponsorships on April 27, 2007. The new document incorporates current regulations as well as ensuring that appropriate checks are in place so that proper procedures are used while planning and executing cosponsored activities. The streamlined SOP provides SBA staff with the necessary guidance to solicit possible partners as well as execute activities.

Training:

In August 2007, the SBA provided training to field staff on planning and conducting cosponsored activities. The training incorporated a review of the changes to the SOP as well as working with the class to identify activities that may or may not be a cosponsored activity.

The agency plans a second round of cosponsorship training via conference call for all appropriate field office staff by July 2008. The continued training provides the field staff with the most current regulations as well as ensuring that they have the ability to properly prepare materials for cosponsored events/activities.

These internal education and training activities assist SBA staff in better understanding the valuable assistance cosponsorship authority can be in assisting the small business customer.

Sample Activity:

The SBA will partner with several local entities over the next year in support of the SBA's Emerging 200 program. The Emerging 200 initiative focuses on small, poised for growth inner city companies with potential for job creation. Eleven SBA district offices are developing cosponsorships with local partners to participate in this effort.

General Funding Levels

I'm concerned about the effect flat funding is having on the SBA's noncredit programs. Unfortunately, the Administration proposes to cut funding from last year's enacted levels for valuable programs such as the Small Business Development Centers, Women's Business

Center, SCORE and Veteran's Business Outreach, each of which is a vital resource to our nation's small businesses. The SBA's non-credit programs and services have time and again proven their value; it is troubling that many of these programs have suffered a real dollar decrease over the past few years.

While I understand that the Federal government is not the primary source of funding for many of these programs, but the SBA's mission is to strengthen the nation's economy by aiding, counseling, assisting, and protecting the interest of small business concerns. Then why does the Administration propose funding cuts for programs that are creating jobs and could help the economy recover?

RESPONSE: As mentioned, it is important to note that the Federal government is not the primary source of funding for these programs. Services to small businesses will not be reduced. Over time, these programs have proven they can meet their demand within existing resources and the SBA believes our vast network of partners can effectively serve these small business concerns.

Economic Stimulus

I believed it was critical that Congress target a portion of the Economic Stimulus Act of 2008 to the unique requirements of America's small businesses, which constitute 99.7 percent of all employer firms, employ nearly half of the private-sector workforce, and over the last decade have created three quarters of net new jobs annually. For that reason, I was very pleased that the stimulus bill, enacted on February 13th included key provisions such as bonus depreciation and small business expensing.

If Congress' takes up additional stimulus legislation, are there any further incentives that the SBA recommends be included in that package to assist small businesses?

RESPONSE: The SBA strongly believes that this bill will very beneficial to small businesses because of three major components: tax rebates will stimulate short term consumer spending, some of which will flow to smaller companies; a 50 percent bonus deduction on new equipment that normally would be depreciated over the long term; and, the bill increases the limit on expenses that small businesses can deduct from annual income.

SBA continues to urge Congress to proceed with other vital small business issues such as permitting health insurance pooling and deductibility, opening up new markets with Colombia, Peru and South Korea, and guaranteeing that taxes on small business earnings and investment don't rise.

December 17, 2007

The Honorable Steven Preston
Administrator
U.S. Small Business Administration
409 3rd Street SW
Washington, DC 20416

Dear Administrator Preston:

NAGGL is concerned about the deterioration in the financial markets and its impact on the economy and small business. We believe that a nationwide credit crunch is underway as lenders tighten lending criteria and reduce credit availability. This situation has been precipitated by the subprime lending crisis, an infection that is spreading to SBA's 7(a) loan program. I would like to ask your assistance in assuring the continued availability of the 7(a) program that is so critical to the U.S. economy overall.

As you know, year to date 7(a) loan volume is down 11 percent in numbers and 2 percent in volume. In these uncertain economic times, the SBA and its active lending partners are in a position to help alleviate the credit crunch and provide economic stimulus and assistance to small business. Based on SBA and FDIC data, SBA's 7(a) loan portfolio is performing as well as bank conventional small business loan portfolios. But senior management decisions at lending institutions to cut operating costs and curtail credit availability in response to the subprime situation have impacted the 7(a) program.

The overall financial health of the banking industry is detailed in the FDIC's quarterly banking profile released November 28. The FDIC report notes that nearly half of all commercial banks had lower third quarter profits from the previous year. Among other findings, the FDIC notes that the industry ROA fell to the lowest level since the 4th quarter of 2002; loan loss provisions surged to a 20-year high; and regulatory capital rations fell to six-year lows.

These facts are driving management decisions, and while declining 7(a) loan volume is the most important symptom, it is not the only symptom. Even lenders that have managed to increase or maintain their level of 7(a) lending activity report that they are suffering. Last week a major 7(a) lender told me that while its loan numbers had increased 25 percent over the previous year, absolutely no commensurate change in profitability resulted. In addition, several institutions have advised me that they do not expect to renew their NAGGL membership because their future operational plans call for suspension or termination of their participation as 7(a) and 504 program first mortgage lenders. But the real losers in these difficult times will be the small businesses that desperately need the help of the SBA and its lending partners.

NAGGL is well aware that some regard "profit" as a dirty word when it comes to assessing a lender's internal decision to participate in the 7(a) program. The hard truth is that virtually all participating lenders are organized as for-profit enterprises, which means that they have a duty to their shareholders to realize a profit from each line of business. And while most 7(a) participants subscribe to the theory of "doing good while doing well", they cannot continue participation in the program unless they maintain an appropriate level of profitability from their 7(a) operations. Given this, NAGGL believes that unless the decrease in profitability from 7(a) lending is halted, lenders will be unable to sustain or expand their SBA lending activity and the program will fail to meet the needs of small business in this tightening credit environment.

Over the past decade and more, as a result of ever increasing delegations of responsibility, and of the agency's decision to make the program self-funding, lenders have had significantly increasing operational costs associated with their 7(a) program participation. Now, SBA has once again dramatically increased the costs for lenders, particularly higher volume lenders, to participate in the program by deciding to pass along to them the agency's out-of-pocket expenses for lender oversight. Although there are a number of factors that affect lenders' decisions to reduce or halt their 7(a) program participation, based on conversations with our members, we believe that "the straw that broke the camel's back" is the recent imposition of lender oversight fees for onsite and offsite (e.g., Loan and Lender Monitoring System – L/LMS) reviews and examinations.

In the minds of our lenders, nearly all of whom are currently regulated by the FDIC, the OCC, and the Federal Reserve Board, the accuracy of the D&B information is questionable and the benefit associated with the fees has not been adequately justified by the agency. The head of a lender's SBA loan division simply cannot justify to senior management SBA's existing fees in light of the benefits received. NAGGL fully supports lender oversight, but notes that statistics indicate that performance of the overall 7(a) loan portfolio is consistent with conventional small business loans and that according to SBA statistics, the majority of the problems in the 7(a) portfolio come from a few non-depository institutions and from lenders, active and inactive, with portfolios of less than $1 million. It is principally among these lenders that the "repair" problem exists. Yet all lenders and borrowers bear the burden of these lenders portfolios never being adequately reviewed while their own portfolios are constantly reviewed.

Therefore, on behalf of our membership, NAGGL respectfully requests that the agency indefinitely suspend its imposition of lender oversight fees for banks already regulated by the Federal government, and that it establish a ceiling on the fees imposed on non-Federally regulated institutions. Such suspension should, at a minimum, remain in effect until a comprehensive review of the agency's lender oversight efforts is concluded. We do not believe this will in any way affect the quality of SBA's oversight efforts, and obviously will not affect the efforts of bank regulatory agencies.

On behalf of our member lending partners, I thank you in advance for your positive consideration of this request. We, like you, want the SBA program to be the fuel that drives the economy and moves our small business owners from success to significance. I would be pleased to meet with you to discuss our request.

Respectfully,

Anthony R. Wilkinson
President and CEO

CC:
The Honorable John Kerry
Chairman
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510

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

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20510

February 25, 2008

The Honorable Steven Preston
Administrator, U.S. Small Business Administration
409 3rd Street SW
Washington, DC 20416

Dear Administrator Preston:

NAGGL has continued to monitor the subprime crisis and its effect on the 7(a) loan program. Since last fall, NAGGL and its members have been concerned with the declining SBA volume. We initially saw tightening underwriting standards and the corresponding credit crunch affect borrowers in the SBA*Express* program. Now we have recognized a systemic decline in the general 7(a) loan volume. The SBA 7(a) loan program should be expanding in this period and providing a means to assist more of the nation's small businesses; unfortunately, this is not the case during these difficult economic times.

NAGGL surveyed its members on January 29, 2008 in order to identify the reasons the SBA 7(a) program is not maximizing its effectiveness in meeting its economic and public policy goals for small businesses. Our questions were directed to members-of-record; i.e., the person member-institutions designate as being responsible for 7(a) lending. Depending upon the institution, the member of record may be the President, CEO, Division Manager, or other designee. However, it is *always* the person with direct familiarity of the 7(a) program, with knowledge of their respective 7(a) customer base, and with ongoing interaction with the agency.

This letter summarizes the results of this recent member survey. The survey was an online questionnaire sent to all 700 members-of-record who represent the lenders that provide over 80% of the annual SBA lending volume. We received approximately 250 responses—a valid and meaningful cross-section of program participants. The survey results are illuminating and I would like to briefly share them with you:

1. 81% of respondents stated that their institutions have tightened credit underwriting standards for conventional loans.
2. 67% of respondents stated that their institutions have tightened credit underwriting standards for SBA loans.
3. 61% of respondents stated that they are seeing a decline in borrower loan demand.

Each of these responses confirms that we *are* in a credit crunch and the need for the SBA 7(a) program to help small businesses is enhanced. The next group of responses shows that SBA 7(a) policies need to be modified to reach the small businesses in need:

1. The top reason for the decline in 7(a) volume is the "decreased profitability of SBA lending due to lender fees and costs". This reason was cited more often than decreased demand due to "borrowers concerned about possible recession".
2. 71% of respondents did not reach their profitability budget goals in 2007.
3. 74% of respondents stated that the volume decline is *not* the result of lenders shifting to conventional products. This contradicts the explanation given by the SBA for declining 7(a) volume.

Without reasonable profits, lenders are unable to reinvest in their program to reach additional small businesses. Examples of the increasing costs and fees associated with providing SBA financing and preserving the conditional guarantee include SBA mandated onsite and offsite review fees and the ongoing SBA lender fee. At the very time the Federal Reserve is attempting to forestall a recession by reducing interest rates and by injecting liquidity into the banking system to persuade lenders to make credit available, SBA's small business lending policies are having the opposite result.

Of particular note—and an issue raised in my December 17, 2007 letter to you—is the agency's lender oversight program. Seventy-one percent of our members believe the agency's onsite reviews duplicate the oversight efforts of federal bank regulators. Nearly 73 percent of our members were unaware that the offsite lender oversight bill they will receive in April will be approximately four times as large as the bill they received last year. With the exception of a small handful of respondents, our members find no value in SBA's current offsite lender review program despite being responsible for its entire cost.

Lender after lender reported that the prospective increase in lender oversight fees will have a further negative impact on 7(a) lending. Comments by lenders such as "We may chose to close down the SBA department"; "Potential decrease in activity"; "We will do less of it" were common among the lenders who responded to the survey. When NAGGL gave the respondents an opportunity to comment on what program changes need to be made, the top write-in response was "fees are too high". This was cited three times as often as the second highest response.

Concerns regarding the adequacy of the offsite review process expressed by NAGGL's members were confirmed in a February 18, 2008 *Business Week* article, "Credit Scores: Not-So Magic Numbers," that raises serious concerns and accuracy issues when utilizing a predictive scoring model for large groups of loans. SBA's offsite program and its Dun & Bradstreet model appear to utilize the exact type of predictive model discussed in the article.

Mr. Administrator, the message from the lending community is clear—the current policies of the SBA, including its position on increasing lender fees, is detrimental to providing much needed capital to our small businesses and fulfilling the agency's public policy goals. In order to restore the importance of the SBA and regain the confidence of its lending partners, the SBA must address these issues and arrive at a mutually beneficial solution that is in the best interest of small businesses and the nation.

I hope you find this information useful and look forward to your timely response.

Respectfully,

Anthony R. Wilkinson
President & CEO

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