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REPORT
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IMPROVEMENTS TO SMALL BUSINESS ADMINISTRATION'S GENERAL BUSINESS LOAN PROGRAM

AUGUST 2, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. TALENT, from the Committee on Small Business, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 2615]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 2615) to amend the Small Business Act to make improvements to the general business loan program, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of H.R. 2615 is to amend the general business loan program at the Small Business Administration, commonly known as the 7(a) loan program. H.R. 2615 contains a variety of technical and substantive changes to improve the program and correct problems brought to the Committee's attention through the oversight process.

H.R. 2615 will increase the maximum guarantee amount of a 7(a) loan to $1 million from the current limit of $750,000 in order to keep pace with inflation. The guarantee amount was last increased in 1988. It also institutes a cap prohibiting loans with a gross amount in excess of $2 million.

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The bill will also remove a provision which reduced SBA's liability for accrued interest on defaulted loans since the provision's intended savings failed to materialize.

H.R. 2615 also includes three changes designed to encourage the making of smaller loans. The 80 percent guarantee rate will be expanded from loans under $100,000 to loans under $150,000. Likewise, the two percent guarantee fee will now apply to loans up to $150,000, which represents a significant savings for these small borrowers. Finally, for small loans, H.R. 2615 includes a provision allowing lenders to retain one quarter of the guarantee fee on loans under $150,000 as an incentive to make these loans.

The last part of H.R. 2615 modifies an SBA regulatory restriction which prohibit loans for passive investment. H.R. 2615 will permit the financing of projects where no more than 20% of a business location will be rented out provided the small business borrower in question occupies the remaining space.

NEED FOR LEGISLATION

It has been ten years since the Committee acted to increase the maximum guarantee amount in the 7(a) program. To keep pace with inflation, the maximum guarantee amount should be increased to approximately $1,250,000. However, the Committee believes that a simple increase to $1,000,000 is sufficient. This allows room for the few larger loans made under the 7(a) program while not encouraging lending that may be better served through other avenues. The Committee also notes that there have been some large loans, above $2 million dollars, that have been made. The Committee believes that such loans, encompassing only a minimal guarantee, are perhaps inappropriate. As a result, the Committee also institutes a cap prohibiting loans with a gross amount of $2 million.

The 7(a) program also faces a problem regarding early repayment of large loans, which jeopardizes the subsidy rate. H.R. 2615 will remedy this problem by assessing a fee to the borrower for prepayment within the first 3 years of a loan with a term in excess of 15 years. The committee believes this increase in prepayments is due to a variety of factors. There have been some instances of misuse of the program by businesses seeking bridge financing. There have been cases where, due to the strong economy, lenders have approached borrowers offering improved terms, effectively "skimming" loans and avoiding the need to process credit analyses. This effectively removes authorization dollars from the program which could have been used for other loans. The Committee believes that this is a disservice to both the small business borrowers and the 7(a) lenders. Both parties work to put financing packages together, at the cost of both time and money. The Committee also notes that such prepayment fees are a normal practice in the commercial lending sector.

The Committee has, over the past several years, been concerned with the availability of loans at the lower end of the 7(a) spectrum. The Committee has in the past made changes in order to accommodate the making of such loans. As a result, since 1994, the number of loans made under $100,000 have increased significantly. In 1998 alone, 53% of the 7(a) loans made were under $100,000. This com-

pares with only 37% in 1994. While this figure fluctuates, the general trend is most definitely upward. Consistent with previous efforts the Committee includes a number of provisions designed to encourage lenders to make these loans and to encourage small business borrowers to seek them.

Finally, the Committee recognizes that current 7(a) program rules prohibit loans for passive investment. When Congress last reauthorized the 504 program, it modified a similar restriction in order to permit the financing of projects where less than 20% of a business space will be rented out when the small business borrower in question will occupy the remaining space. The Committee believes that it is time that we provide similar options to 7(a) borrowers.

COMMITTEE ACTION

HEARING ON LEGISLATIVE PROPOSALS

On June 24, 1999, at 9:30 a.m., the Committee on Small Business convened a hearing to discuss legislative proposals for the 7(a) and 504 programs. The Committee received testimony from four witnesses: Mr. Fred Hochberg, Deputy Administrator of the Small Business Administration; Mr. Anthony Wilkinson, President of the National Association of Government Guaranteed Lenders; Ms. Donna Faulk, Vice President for Mortgage Backed Securities of Prudential Securities; and Mr. John Geigel of the Wisconsin Business Development Finance Corporation. Mr. Geigel's testimony concerned the provisions affecting the 504 program.

Mr. Hochberg's testimony generally supported the provisions in the legislative proposal which later became H.R. 2615. He expressed the Administration's opposition to the proposed subsidy floor provision which was removed from the final version. However, the Committee believes this provision merits further examination. Mr. Hochberg also expressed reservations regarding increasing the guarantee amount; however, he stated that those concerns were based on the draft of the bill without any provisions to encourage smaller loans. Such provisions were later added.

Mr. Wilkinson testified in support of the provisions proposed. He stated that the 7(a) lenders were particularly supportive of some form of prepayment penalty in order to add stability to the program. He stated that recent prepayments raised significant concern over the effect to the program as a whole. He also expressed support for the provisions raising the guarantee amounts, saying that such an increase was needed to provide some growth due to inflation. Mr. Wilkinson stated that he did not believe that the increases in average loan size were significant, and he noted that they fluctuated regularly.

Ms. Faulk testified in support of the prepayment penalty provision. She testified that the commercial investors who purchase pools of SBA guaranteed loans have faced problems due to prepayments. Early prepayments require that loans be stripped from pools, with a corresponding loss in income. This results in a loss of investor confidence and interest in SBA backed pools and a loss in credit availability for small businesses.

CONSIDERATION OF H.R. 2615

At 9:30 on July 29, 1999, the Committee on Small Business met to mark up and report H.R. 2615. The Chairman declared the bill open for amendment at any point, and the first action was consideration of an amendment to section two of H.R. 2615 offered by Representative Manzullo. The amendment sought to remove the provision increasing the maximum guarantee amount for 7(a) loans. The current level is $750,000 and H.R. 2615 raises that amount to $1,000,000.

Mr. Manzullo maintained that the increase in the guarantee amount would have a negative effect on the availability of smaller loans. He expressed concern that a letter he had received from the SBA showed that 6,400 loans might not be available if the increase was passed. However, the letter also stated that it did not take into account any possible changes to the program that encourage smaller loans and thereby change that estimate. Mr. Manzullo also expressed his concern that SBA was departing from its mission in offering too much assistance through larger loans.

Chairman Talent expressed his belief that both the changes to encourage small loans and the cap imposed on the overall loan size available through the 7(a) program would mitigate any possible negative impact on small loans. The Chairman also stated that he had seen no empirical evidence that the availability of small loans was, in fact, affected by changes in the maximum guarantee amount. The Chairman then distributed a chart showing clearly that average loan size and the number of loans made in the 7(a) program fluctuated widely.

Chairman Talent also pointed out that the number of loans under $100,000 has clearly risen since 1994, evidence that the SBA was not adrift in its mission. They have risen from 30% of all loans in 1993 to 53% in 1998. Finally, he explained that large loans, which are still loans to small businesses, pay proportionately higher fees and consequently subsidize the smaller loans.

Mr. Bartlett expressed his belief based on testimony received by his subcommittee, that larger loans were necessary but he questioned whether a "carte blanche" increase should be available. He stated that a waiver, to allow larger loans might be a better way to provide such financing.

Chairman Talent responded that the existing language did offer the flexibility needed, and that the nature of the program was such that adding restrictions or waivers might actually hamper the ability of small businesses to receive assistance. He pointed to the clear rise in average loan size that occurred in the 7(a) program in 1992, 1993, and 1994. This was a result of the "credit crunch" that was affecting the economy at the time, and the need for larger small businesses to acquire 7(a) assistance which they would ordinarily forego in lieu of conventional financing.

Ms. Velazquez also spoke in opposition to the amendment. She made clear that the increase was actually less than needed to adjust for inflation over the past ten years, and was a very modest increase. She also pointed out that the bill did far more to encourage the making of small loans than any possible increase in large loans. Ms. Velazquez also reiterated the Chairman's observation

that, under the current subsidy system, larger loans tended to cross-subsidize smaller loans, and that artificial restrictions on large loans threatened to increase the subsidy cost of the 7(a) program.

Mr. Pascrell spoke in opposition to the amendment, but expressed his concern over the making of small loans. He expressed his belief that small loans were less affected by programmatic changes than by other factors—economic and administrative. He expressed his hope that the Committee could have hearings in the near future to address the issue.

Ms. Millender-McDonald and Mr. Davis also spoke in opposition to the amendment, and expressed their belief that the 7(a) program had been moving increasingly in favor of small borrowers and that the amendment was necessary.

The amendment was voted on at 10:25 a.m. It was defeated by a roll call vote of four in favor, and twenty-four against. Mr. Manzullo, Mr. Bartlett, Mr. Toomey, and Mr. Chabot voted in favor of the amendment. Mr. Talent, Ms. Velazquez, Mr. LoBiondo, Ms. Millender-McDonald, Mrs. Kelly, Mr. Davis, Mrs. McCarthy, Mr. English, Mr. Pascrell, Mr. Pitts, Ms. Christian-Christensen, Mr. Sweeney, Mr. Brady, Mr. DeMint, Mr. Udall (NM), Mr. Thune, Mr. Moore, Mrs. Bono, Mr. Gonzalez, Mr. Phelps, Ms. Napolitano, Mr. Baird, Mr. Udall (CO), and Ms. Berkley voted against the amendment.

The Chairman then moved the bill be reported, and at 10:30 a.m., by a voice vote, a quorum being present, the Committee passed H.R. 2615 and ordered it reported.

SECTION-BY-SECTION ANALYSIS

Section 1. Levels of participation

Increases the guarantee percentage on loans of $150,000 or less to 80%. The 80% guarantee level currently extends only to loans of $100,000 or less. This guarantee increase is one of the changes proposed to encourage the availability of small loans.

Section 2. Loan amounts

This provision will increase the maximum guarantee amount to 1 million dollars. The maximum gross loan amount will be capped at 2 million dollars. The language would prohibit SBA from placing a guarantee on any loan over 2 million dollars regardless of the guaranteed amount. Consequently, the largest loan available would be a 2 million dollar loan with a 50% guarantee. The largest loan available at the maximum guarantee rate of 75% would be $1,333,333. The cap on loans over 2 million dollars will effectively remove a number of large loans that have been made with only a minimal guarantee, loans which use up loan authority at a disproportionate rate. In 1998, roughly thirty loans over 2 million dollars were made.

Section 3. Interest on defaulted loans

This will remove the provision that reduced SBA's liability for accrued interest on defaulted loans. This provision was added to the program in 1996 as a method of reducing the subsidy cost of the

program. It has come to the Committee's attention that the expected savings have not materialized.

Section 4. Prepayment of loans

This provision will reduce the incentive for early prepayment of 7(a) loans. It will assess a fee to the borrower for early prepayment of any loan with a term in excess of 15 years. Early prepayment will be defined as any prepayment within the first three years after disbursement. The prepayment fee will be determined by the date of the prepayment—5% in the first year, 3% in the second year, 1% in the third year. The fee will be based on "excess prepayment" which is defined as prepayment of more than 25% of the outstanding loan amount. In the event of an excess prepayment the fee would be assessed on the entire outstanding loan amount.

Section 5. Guarantee fees

This section changes the guarantee fee for loans of $150,000 or less to 2%. Currently, the guarantee fee of 2% is only for loans under $100,000. Loans over $100,000 currently have a guarantee fee of 3%. The section also provides for an incentive for lenders to make smaller loans (under $150,000) by allowing them to retain ¼ of the guarantee fee.

Section 6. Lease terms

Under existing 7(a) rules, loan proceeds may not be used for investment purposes. This includes purchase or construction of property to be leased to others. Currently, 7(a) loans may be used to construct property which will be used solely by the borrower.

In 1997, Congress modified this rule for the 504 program to allow for projects where a small portion of a property might be rented out permanently, but the borrower's main focus was the construction of a permanent location. This provision would allow the same authority for 7(a) loans. Borrowers would be allowed to lease up to 20% of a property in which they will occupy the remaining 80%.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, August 2, 1999.

Hon. JAMES M. TALENT,
Chairman, Committee on Small Business,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2615, a bill to amend the Small Business Act to make improvements to the general business loan program, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Mark Hadley (for federal costs) and Shelley Finlayson (for the state and local impact).

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

H.R. 2615—A bill to amend the Small Business Act to make improvements to the general business loan program, and for other purposes

H.R. 2615 would make numerous changes to the general business loan program administered by the Small Business Administration (SBA). Based on information from the SBA, CBO estimates that implementing the bill would not have a significant impact on the federal budget. H.R. 2615 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 2615 would establish penalties for borrowers who choose to prepay their loans in the first three years if such loans have a contractual maturity of at least 15 years. The bill also would reduce certain fees paid by borrowers of loans between $80,000 and $150,000. Current law allows the SBA to pay, on defaulted loans, 1 percent less than the borrower's interest rate between the time of a default and the time the SBA purchases the loan. Section 3 would eliminate this provision of law for new loans guaranteed after fiscal year 1999. Finally, the bill would make technical changes affecting the percent of a loan the agency would guarantee, the maximum loan size, and eligible uses for loan proceeds.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis and excluding administrative costs. Based on the number of loans that would be affected by the prepayment penalty and the value of the fees that would be reduced by the bill, CBO estimates that the net effect of H.R. 2615 on the subsidy costs of general business loan guarantees would be negligible. Any changes in spending that would result would be subject to the availability of appropriated funds.

H.R. 2615 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act. The bill would modify an existing small business loan program that includes tribal-owned small businesses as qualified recipients. Any costs or benefits to Indian tribes would be the result of voluntary participation in this program and are expected to be minimal. Less than 1 percent of the loans issued each fiscal year are to tribes, and the bills; changes would not significantly affect the overall costs or benefits of the program. State and local governments would not be affected.

The CBO staff contacts are Mark Hadley (for federal costs), and Shelley Finlayson (for the state, local, and tribal impact. This estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.

COMMITTEE ESTIMATE OF COSTS

Pursuant to the Congressional Budget Act of 1974, the Committee estimates that the amendments to the Small Business Act contained in H.R. 2615 will not increase discretionary spending over the next five fiscal years. The Committee also estimates that

H.R. 2615 will not affect direct spending. This estimate concurs with Congressional Budget Office (CBO) estimates.

Furthermore, pursuant to clause 3(d)(2)(A) of rule XIII of the Rules of the House of Representatives, the Committee estimates that implementation of H.R. 2615 will not significantly increase other administrative costs.

OVERSIGHT FINDINGS

In accordance with clause 4(c)(2) of rule X of the Rules of the House of Representatives, the Committee states that no oversight findings or recommendations have been made by the Committee on Government Reform with respect to the subject matter contained in H.R. 2615.

In accordance with clause (2)(b)(1) of rule X of the Rules of the House of Representatives, the oversight findings and recommendations of the Committee on Small Business with respect to the subject matter contained in H.R. 2615 are incorporated into the descriptive portions of this report.

STATEMENT OF CONSTITUTIONAL AUTHORITY

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representative, the Committee finds the authority for this legislation in Article I, Section 8, clause 18, of the Constitution of the United States.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 7 OF THE SMALL BUSINESS ACT

SEC. 7. (a) LOANS TO SMALL BUSINESS CONCERNS; ALLOWABLE PURPOSES; QUALIFIED BUSINESS; RESTRICTIONS AND LIMITATIONS.—The Administration is empowered to the extent and in such amounts as provided in advance in appropriation Acts to make loans for plant acquisition, construction, conversion, or expansion, including the acquisition of land, material, supplies, equipment, and working capital, and to make loans to any qualified small business concern, including those owned by qualified Indian tribes, for purposes of this Act. Such financings may be made either directly or in cooperation with banks or other financial institutions through agreements to participate on an immediate or deferred (guaranteed) basis. These powers shall be subject, however, to the following restrictions, limitations, and provisions:

(1) * * *

* * * * * * *

(2) LEVEL OF PARTICIPATION IN GUARANTEED LOANS.—

(A) IN GENERAL.—Except as provided in subparagraph (B), in an agreement to participate in a loan on a deferred basis under this subsection (including a loan made under

the Preferred Lenders Program), such participation by the Administration shall be equal to—

(i) 75 percent of the balance of the financing outstanding at the time of disbursement of the loan, if such balance exceeds [$100,000] *$150,000*; or

(ii) 80 percent of the balance of the financing outstanding at the time of disbursement of the loan, if such balance is less than or equal to [$100,000] *$150,000*.

* * * * * * *

(3) No loan shall be made under this subsection—

(A) if the total amount outstanding and committed (by participation or otherwise) to the borrower from the business loan and investment fund established by this Act would exceed [$750,000,] *$1,000,000 (or if the gross loan amount would exceed $2,000,000),* except as provided in subparagraph (B);

* * * * * * *

[(4) INTEREST RATES AND FEES.—]

(4) INTEREST RATES AND PREPAYMENT CHARGES.—

(A) * * *

(B) PAYMENT OF ACCRUED INTEREST.—

(i) * * *

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(iii) APPLICABILITY.—Clauses (i) and (ii) shall not apply to loans made on or after October 1, 1999.

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(C) PREPAYMENT CHARGES.—

(i) IN GENERAL.—A borrower who prepays any loan guaranteed under this subsection shall remit to the Administration a subsidy recoupment fee calculated in accordance with clause (ii) if—

(I) the loan is for a term of not less than 15 years;

(II) the prepayment is voluntary;

(III) the amount of prepayment in any calendar year is more than 25 percent of the outstanding balance of the loan; and

(IV) the prepayment is made within the first 3 years after disbursement of the loan proceeds.

(ii) SUBSIDY RECOUPMENT FEE.—The subsidy recoupment fee charged under clause (i) shall be—

(I) 5% of the amount of prepayment, if the borrower prepays during the first year after disbursement;

(II) 3% of the amount of prepayment, if the borrower prepays during the 2nd year after disbursement; and

(III) 1% of the amount of prepayment, if the borrower prepays during the 3rd year after disbursement.

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(18) GUARANTEE FEES.—

(A) * * *

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[(B) EXCEPTION FOR CERTAIN LOANS.—Notwithstanding subparagraph (A), if the total deferred participation share of a loan guaranteed under this subsection is less than or equal to $80,000, the guarantee fee collected under subparagraph (A) shall be in an amount equal to 2 percent of the total deferred participation share of the loan.]

(B) EXCEPTION FOR CERTAIN LOANS.—

(i) IN GENERAL.—Notwithstanding subparagraph (A), if the total deferred participation share of a loan guaranteed under this subsection is less than or equal to $120,000, the guarantee fee collected under subparagraph (A) shall be in an amount equal to 2 percent of the total deferred participation share of the loan.

(ii) RETENTION OF FEES.—Lenders participating in the programs established under this subsection may retain not more than 25 percent of the fee collected in accordance with this subparagraph with respect to any loan not exceeding $150,000 in gross loan amount.

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(28) LEASING.—In addition to such other lease arrangements as may be authorized by the Administration, a borrower may permanently lease to 1 or more tenants not more than 20 percent of any property constructed with the proceeds of a loan guaranteed under this subsection, if the borrower permanently occupies and uses not less than 60 percent of the total business space in the property.

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ADDITIONAL VIEWS

Democrats are strong supporters of the Small Business Administration's General Business Guaranty, or 7(a), program. This program is one of the most important small business loan programs administered by the Small Business Administration because it represents access to capital for America's small businesses, and an access to capital means access to opportunity.

SBA administers numerous programs that provide financial and technical assistance to small firms, but the 7(a) program is the agency's flagship loan program. It is far and away the agency's largest and most important in terms of number of loans and program level supported.

Under the 7(a) guaranty loan program, loan guarantees are provided to eligible small businesses that have been unsuccessful in obtaining private financing on reasonable terms and conditions, and the proceeds from a 7(a) loan may be used for virtually any business purpose. Since the program's inception, SBA has made or guaranteed more than 600,000 7(a) loans totaling approximately $80 billion.

The 7(a) program addresses the financing needs of small firms that are often not met in the private capital markets because commercial lenders do not provide loans for the purposes, in the amounts, and with the terms required by small business borrowers.

This program should be held out as an example of a program where taxpayers can see their dollars doing effective work. The legislation approved by the Committee, H.R. 2615, will update and improve the 7(a) loan program in a reasonable and thoughtful way, and will enable the program to continue in an effective manner. We strongly support this bill in its current form.

One of the more important items in the legislation is the increase in the loan guaranty from $750,000 to $1 million. It has been over a decade since we increased the loan guaranty. In fact, if the current guaranty were indexed using the consumer price index, one would actually have a loan guaranty that is higher than what was included in the bill. The guaranty increase is reasonable and necessary if the program is to continue to serve our nation's small businesses.

In the 7(a) program, the higher fees generated by larger loans allow the program to expand because they substantially lower the subsidy rate of the program. This, in turn, allows the program to make more small loans available to small businesses. Within the larger loans, the fees charged to smaller loans would be significantly higher. Thereby making 7(a) loans inaccessible to those businesses who need them most.

To safeguard against the risk that increasing the guaranty would harm those seeking smaller loans, we have capped the total loan amount that can be made under the 7(a) program at $2 million.

This, in combination with other provisions of the legislation will ensure that the 7(a) program will be available to all who need it.

We would also like to indicate our strong support for the small loan provisions contained in the legislation. This is an important issue for the Democratic Members of the Committee. We are pleased that the Committee has made sure that small loans are still a priority by adopting such changes as reducing the guaranty fee to the borrower of loans of $150,000 or less from 3% of the loan to 2%, ensuring that small businesses will keep more of their money.

The Committee also creates incentives for lenders to continue to make small loans through an increasing guaranty from 75% to 80%, and a rebate that could be as high as $600 per loan. These proposals will ensure that the program continues its mission.

All of these changes made to the 7(a) program through H.R. 2615 will grow the program in a reasonable way, while ensuring that we continue our commitment to small lenders through the program. We support these changes and we support the overall bill.

However, we are disappointed that the final version of the bill did not include a provision to ensure the accuracy of the subsidy rate floor. Under the leadership of Chairman Talent, the Committee has tried to better understand how the 7(a) subsidy rate is calculated and whether it, at any given point, is an accurate reflection of the program's cost to the government.

Unfortunately, we have been unsuccessful, and year after year we find that the fees this Committee has authorized are too high. As the performance of the program has improved over the past few years, federal funding for the program has been reduced rather than lowering fees and costs to the program participants. Through the current fee-rate system we are over-charging our borrowers and lenders for participating in the 7(a) program. Since the inception of credit reform, we have over-charged program users by $800 million. We must develop a fee system that keeps the subsidy rate for the program low, while not over-charging the program participants.

The subsidy rate floor provision was a creative attempt to do something about this issue. Here is how it would work: Current law imposes two types of fees—a one-time fee imposed on the borrower, the amount of which is determined by the size of the loan, and an annual fee of 0.5% of the outstanding amount of the loan which is paid by the lender for the life of the loan.

In the event the subsidy rate for the 7(a) program were to drop below 1.25% this provision would have required the Administrator to adjust fees in the program to bring the subsidy rate back to 1.25%. This would be accomplished by reducing the fees charged to the 7(a) borrowers—with the fees on the smaller portions of the loans being the first affected. Only in the event of a serious subsidy drop, after the above changes were implemented, would the Administrator then be allowed to lower the 0.5% annual fee charged to the lenders.

Without this or a similar provision, the subsidy rate could be at zero and the federal government could still be charging the borrowers too much to use the program. This is a very serious issue, and I hope the Committee will consider a subsidy rate floor in a subsequent bill.

We are pleased that Chairman Talent acknowledged this issue during the mark up and indicated his willingness to hold hearings on this issue. It is our hope that we can hold these hearings very soon, with the possibility of including the subsidy rate floor provision in the final legislation.

We look forward to working with the Chairman, the other Members of the Committee Majority, and the Small Business Administration to find a workable solution on this issue—one that balances out the interests of the program participants and the taxpayers, while maintaining a strong 7(a) loan program.

NYDIA M. VELÁZQUEZ.

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