S. HRG. 108–514

THE PRESIDENT'S FISCAL YEAR 2005 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 12, 2004

Printed for the use of the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.access.gpo.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

92–957 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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THE PRESIDENT'S FISCAL YEAR 2005 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

THURSDAY, FEBRUARY 12, 2004

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

The Committee met, pursuant to notice, at 9:35 a.m., in Room SR–428A, Russell Senate Office Building, Hon. Olympia J. Snowe, Chair of the Committee, presiding.

Present: Senators Snowe, Crapo, and Pryor.

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

Chair SNOWE. The hearing will come to order.

Good morning and welcome to this morning's hearing on SBA's budget proposal for fiscal year 2005. I want to thank Administrator Barreto for being here this morning to examine some of the issues regarding the SBA's blueprint for priorities as well as several small business representatives who are also here to testify in the second panel.

I know the Administration has made the economy, and specifically job creation, the cornerstone of its agenda and I could not agree more. As economic signs appear to be pointing in the right direction, we must also move heaven and earth to ensure that jobs remain job one, if this recovery is to be meaningful to Americans in their every day lives.

So as we explore the SBA's bottom line for fiscal year 2005, we must do so understanding that the bottom line for Americans is that 23 million small businesses are producing over 50 percent of the gross domestic product and that our Nation's small businesses have consistently created three-quarters of the new jobs in the United States.

Specifically, SBA programs have contributed to the creation of nearly 6 million jobs since 1999, a remarkable record of achievement in challenging times. Moreover, according to the SBA's own analysis, reauthorization of the Agency will result in an estimated 3.3 million jobs over the coming 5 years with the SBA and its programs predicted to support over one million jobs over that same period through prime contracts and subcontracts.

So there should not be any doubt about the critical role that small businesses play in putting Americans to work. And if that is not enough, when you consider that the Small Business Administration budget represents only .03 of 1 percent of the Federal budget, yet at the same time small businesses are creating about three-quarters of all new jobs in America, can there be any question that assisting our small businesses is not only an investment in our country's economic future, but also the future of the fiscal health of our Federal Government?

Therefore, I come to this hearing to examine some of the issues that have been raised with respect to the $678 million budget request of the Small Business Administration. This represents a 15 percent decrease from the 2004 request. And we have to examine some of the issues concerning whether or not we are sacrificing vital assistance to the very entities that are putting people at work which I think we can all agree is our mutual goal.

This morning I will be listening very carefully and analyzing the SBA's budget line-by-line, because I believe that we have an obligation to ensure that we can continue not only to maintain, but also to strengthen and improve the SBA's key loan and assistance programs. I have heard time and again, from my constituents in Maine and throughout the country that SBA's key loan and assistance probrams are critical lifelines to the job generators that we call small businesses.

Specifically, the SBA's lending and investment capital programs are two of the Agency's central resources in providing small businesses with capital to grow, expand and operate. In fiscal year 2003, the SBA approved a record number of loans and venture capital financed more than $16 billion for small businesses. Those loan programs, such as the 504 and the 7(a) loan programs have a proven record of helping small businesses to create and retain more than 2 million jobs throughout America.

In 2003, the 7(a) program alone reached a level of $11.3 billion in loans. Yet, as I have expressed many times, I have been deeply concerned about the management of this program over this past year in particular. In June of 2003, this Committee highlighted the potential for a shortfall in the 7(a) loan program and that shortfall occurred just last month, resulting in a shut-down of the program. Obviously, we have got to prevent this from recurring. And I am committed to finding a long-term solution to funding the needs of the 7(a) program.

What that will require is the fullest possible disclosure from SBA regarding the past performance of this program and the data necessary to conduct a complete analysis and develop options for the future so that we can prevent this from recurring? Only by completely understanding the accounting for the program will we be able to construct the best possible solution to assist small businesses and ensure that they do not have to suffer from an inconsistent program or from unnecessarily high loan fees. And I will be looking to the SBA for that accountability.

Moreover, while recent years have been difficult times for businesses seeking venture capital, the SBA has allowed for venture capital at a far greater level than would otherwise have been available. Indeed, over the last 5 years the Small Business Investment Company Program alone has made more than 20,600 investments in small businesses with a total value of $19.4 billion with a dividend of the creation and retention of approximately 549,000 jobs and 4,800 investments to small businesses during this past year that totals almost $2.5 billion in equity and debt capital.

This is strong evidence that this program is worthy of our continued support to guarantee that it continues to benefit emerging businesses.

Finally, we must ensure that we continue to build on the successes of SBA's Technical Assistance Programs. When we know that for every dollar we spend on counseling through the Small Business Development Centers creates $3 in return in the form of tax revenues while creating 64,000 new small businesses and retaining 68,000 jobs in fiscal year 2002; and, when we know that the SBA's Women's Business Center Program has helped to create more than 2,000 new small businesses and retain almost 5,000 jobs through its unique training and counseling programs. Given the successes of these programs, who could argue that they are indispensable?

So I will want to be assured and convinced that these programs will be strengthened, not jeopardized.

Today, I also look forward to hearing from each of our participants on the SBA's budget proposal and its potential implications for small businesses. Your input is essential to identifying any barriers that might limit the success of small business. Because in the end, the SBA is one of our most valuable resources for ensuring the success of small business.

As Chair of this Committee, I look forward to working with the Administration and with the Administrator, to assure that businesses can benefit and prosper in the future.

So it is my pleasure to recognize a colleague from Idaho, Senator Crapo, who has been a real champion of small businesses and I welcome you. Any comments?

OPENING STATEMENT OF HON. MIKE CRAPO, A UNITED STATES SENATOR FROM IDAHO

Senator CRAPO. Thank you very much, Madame Chair and I do have a few comments.

First of all, I want to indicate that it is interesting as I listen to your remarks that you pretty much gave my speech. So I can make this short and associate myself with your comments.

Administrator Barreto, I welcome you here and I want to tell you that, although you will hear some concerns from us today about the budget that the SBA is presenting to Congress, I want to personally thank you for your leadership at the SBA and for your attention to Idaho and to the needs of people in Idaho and your recent trip there.

In fact, I was just on the radio doing an interview today talking about some of your upcoming activities in Idaho for some of our Hispanic community members. And again, I appreciate that very much.

I also want to say, by way of introduction, that I will not be able to stay for the whole hearing. I have three hearings today going on at the same time. Secretary Thompson is front of the Budget Committee right now and Chairman Greenspan is in front of the Banking Committee, and I have got to be with you and with both of them. And so I apologize if I have got to step out.

I do ask, Madame Chair, that my questions and so forth that I may not get to ask be made a part of the record and submitted if possible.

Chair SNOWE. Without objection, so ordered.

Senator CRAPO. Thank you. I just want to briefly indicate that I share some of the concerns—well, all of the concerns that Chair Snowe raised in her comments. I want to make it very clear that I, with all Americans, support the President's call to balance the budget, or to at least cut it in half over 5 years. Actually, I am going to work, when I go to the Budget Committee in a few minutes, to try to get us on a glidepath to balance it in less than 5 years. I realize that that calls for some pretty stringent measures as far as the budget goes.

As we move ahead in that process, however, and I look at what has happened with the SBA budget over the last 5 years and in the most recent 1 year period, I have to wonder whether we are making the right decisions about this budget and whether sacrifice is being asked to be shared across the Federal Government. When you look at the fact that the SBA has been reduced in its budget by 25 percent since 2001 and we see a 15 percent reduction proposed just from last year to this year, that concerns me when our number one issue is jobs, and when the engine for driving jobs is small business in this country.

It also concerns me when I look at the broad picture of all other agencies. There are only four other agencies in the Government that have had overall reduction in their budget over the last 5 years. Again, although I am a very strong fiscal conservative who is going to be fighting to make that sure that we have an even more fiscally conservative budget than the President has proposed, once we have that budget out there I am going to be looking to be sure that those parts of our Government that drive the important priorities are adequately funded and that they receive adequate priorities. And I just do not see that right now, frankly, in terms of the allocation to the SBA.

In particular, with regard to the 7(a) program, I know this is not a partisan issue and I know you knew you were going to talk about it today when you got here. Each of us is concerned about what has happened with the 7(a) program to this point and want to make sure that this—which I consider to be the flagship program of the SBA—that this program is adequately funded and managed. And that whatever we end up seeing with regard to the actual budget for the SBA, that the allocations and the management of that budget make certain that the 7(a) program is made whole and is put on a glidepath for success. It is that, that I believe is behind much of the success of the small business endeavors in this country and we must not see that lost.

And then again, interestingly, the Small Business Development Centers were also on my list of things to talk to you about. So Chair Snowe I am going to leave those issues in your hands to cover when I have to leave.

But again, Administrator Barreto and Chair Snowe, I thank you for being here, and Chair Snowe for this hearing, and look forward to discussing these kinds of issues.

Chair SNOWE. Senator Crapo, I appreciate the comments that you have raised and actually I think you have identified some very key issues and statistics with respect to what has happened to the Small Business Administration. And the fact this is the very program that we ought to be buttressing and reinforcing because of its job creation capability, we ought to be leveraging the number of programs within SBA to create the kind of jobs in America that strengthen our economy.

I mean, there is a cause and effect. I think all too often so many in Congress and outside of Congress do not appreciate the value of these programs and the SBA becomes a target for reductions. That is one of the things that hopefully we can continue to do more of is to expound the value of these programs.

I appreciate what you have mentioned here this morning and I know it is very interesting in illustrating the point that SBA is one of four other programs that has been cut over the last 5 years.

Senator CRAPO. That is right.

Chair SNOWE. So I think that highlights some of the problems that we have been facing in the past where people do not realize that it creates a real incentive for job creation at a time when we certainly need it the most.

So I appreciate your comments. You can be sure I will raise many of the issues that you have raised here this morning on your behalf.

Senator CRAPO. Thank you very much. I leave you with my proxy. You had it to start with.

Thank you, very much, Mr. Barreto.

Chair SNOWE. Thank you for taking the time to be here.

Administrator Barreto, we thank you for taking the time as well to be here. We thank you for your commitment and your leadership at the Small Business Administration. You truly have been the champion of small business in America and we thank you for all that you have done. So we appreciate the fact that you are here today to explain the Administration's request and the SBA's submission on its priorities for the coming fiscal year.

You may begin, and I will obviously incorporate your entire statement in the record. You may proceed.

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

Mr. BARRETO. Thank you very much Madame Chair and thank you for inviting me here today to talk about the Small Business Administration's 2005 budget and our strong commitment to continue to offer the very highest quality services to America's small business owners.

A lot has happened over the last few years, both in America's small business community and at the SBA. When I became the SBA Administrator, I wanted to change the culture of our Agency. I wanted to create a new environment at the Agency and a new environment for America's entrepreneurs. And that meant not sticking with the status quo. That meant not doing things the way that we have always done them before. And that is what I would like to talk to you about today.

The SBA is ready to send legislation to Congress that could add as much as $3 billion to our 7(a) Lending Program this year while simplifying the application process and moving the program towards a permanent zero subsidy rate. The President and I believe that this proposal provides a clear long-term vision for a more successful 7(a) program, a bold new 7(a) program that addresses the real issues of these new economic times.

The plan calls for the expansion of the successful SBA Express program which accounted for a remarkable 33,000 SBA loans in 2003 and has proven effective in reaching underserved and rural markets.

I know there are some skeptics in the industry that doubt the ability of this plan to succeed. Some of those same people doubted the success of the SBA Express program. They doubted our ability to convince banks to go into markets they had never been in before. They said banks would not make those loans. They said it would not be profitable.

Well, the numbers do not lie. SBA Express was a tremendous success and this bold new 7(a) proposal will help continue that success so that our loan programs remain a powerful source in our growing economy. This proposal will move 7(a) loans to a lower guarantee rate, allowing the Agency to increase lending authority by 34 percent. That 34 percent increase will allow the SBA to remove the caps on 7(a) loans.

But it will do too far more than that. At a program level of $12.5 billion in fiscal year 2004, that 34 percent increase in lending authority could mean 90,000 new loans in 2004 and as many as 500,000 new or retained jobs. This proposal allows lenders to use their own forms and procedures to apply for 7(a) loans, reducing the burden of excessive paperwork and making 7(a) loans more accessible for rural and community banks and their customers.

Our plan also helps move the 7(a) program towards our goal of a zero subsidy rate. There is also long-term potential for reducing fees on lenders and borrowers.

There is more. I am proud to say that the budget we are submitting also increases the SBA 7(a) lending authority for fiscal year 2005 by 30 percent. That will allow us to reach thousands, perhaps tens of thousands more entrepreneurs than we ever have before.

There is an added benefit to these proposals, because we are moving towards a zero subsidy rate for 7(a) loans. These tremendous increases in loan authority go hand-in-hand with demanding savings for America's taxpayers. Furthermore, zero subsidy for 7(a) loans also translates into long-term stability for the 7(a) program, something our partner lenders will appreciate.

Let me hasten to add that our 7(a) program is not our only successful loan program. Our budget submission includes $4.5 billion in lending authority for the 504 Certified Development Company program. The 504 is a great program for our small business customers and for the American economy. It is a job creator and we are particularly proud that the 504 program is continuing to make more and more loans to minority small business owners, yet another sign that the fastest-growing segment of the small business community continues to thrive.

But that is not all that we are doing. I am also extremely proud that this budget strengthens the SBA core service delivery systems. We are investing in the successful delivery systems that we know get results for our clients. $88 million for Small Business Development Centers. $5 million for the Service Corps of Retired Executives. $12 million for Women's Business Centers. $750,000 for National Women's Business Council. $750,000 for veterans outreach. $1.5 million for 7(j) technical assistance.

These proposals are part of our commitment to a new SBA with new ideas and new ways of serving our customers: new ways of reaching out, like our regional roundtable events, one of which you attended, Madame Chair, in Bangor last year;

Madame Chair, our ongoing efforts to open up new offices in underserved areas known as alternative work sites, as we have done this month in Maine, in Portland and Bangor; new ways of fighting for the things that small business owners need like less burdensome regulations and association health plans; new ways to help create an environment of success for small business. That is the culture I want at the SBA, the new SBA. I am proud of the progress we have made.

In 2003, the SBA approved 74,169 loans in our two major loan programs, more than ever before in our 50 year history. Nearly one-third of those loans went to minority business owners. In 2003, 2.1 million entrepreneurs received business counseling and technical assistance through SBA's counseling and training programs. In 2003, the Office of Advocacy saved small businesses $6.3 billion in regulatory costs. In that same year, the SBA website recorded more than 54 million visits. In 2003, the SBA's Disaster Assistance Loan program made almost 26,000 loans.

Those are real results and that is what matters the most. Let me tell you why.

At a business matchmaking event in Houston a few months ago, a businesswoman came up to me with tears on her cheeks. She said to me, "Mr. Administrator, I am not a statistic. I am a real, living, breathing business owner. I want to thank you. After 9/11, it was an SBA disaster loan that kept my business open. And now I am here, learning and making connections to make my business grow."

That is what is important. That reminds us of what our job really is. This is about real people and real lives. Our responsibility is great.

I am proud of these proposals, because I believe that they live up to that responsibility. I believe that they reflect an SBA that understands what is at stake. It is not about just programs and statistics. It is about results, measured by the success of our clients.

I hope we can work together to get those results and help usher in more of that success for even more American entrepreneurs. And again, I want to thank you very much for having me here and I would be glad to answer any questions you might have.

Thank you very much.

[The prepared statement of Mr. Barreto follows:]

STATEMENT OF
HECTOR V. BARRETO
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
SBA'S FISCAL YEAR 2005 BUDGET REQUEST

Madame Chairman, Ranking Member Kerry, and members of the Committee, thank you for inviting me here today to discuss the President's Budget Request for the U.S. Small Business Administration (SBA) for Fiscal Year (FY) 2005.

At the SBA, we have completed one of our most important years ever. The SBA has continued its drive to simplify and improve the Federal government's role in providing capital and technical assistance to America's entrepreneurs. The diversity and success of companies supported by the SBA has been a major factor in the current economic recovery. We're proud of that success. At the same time, though, we must keep a watchful eye on the taxpayers' stake in these programs. As much as we have achieved in the past, we have a change to improve upon our record.

As the President has emphasized, we can ease the unnecessary burdens on U.S. companies – high tax rates, litigation costs, workers' compensation and unemployment insurance, skyrocketing health care costs, tax preparation costs, high energy prices – and by doing so give those companies a better chance to grow and create new jobs. What's more, if we can encourage private risk-taking, then we can give entrepreneurs the boost they need to find partners, networks, customers, and access to capital. Encouraging private risk taking and investment is one the missions of the SBA.

President Bush understands the vital role that America's small businesses play in creating opportunities. He also recognizes that following times of economic downturn, small businesses play a leading role in economic recovery, and that it is small businesses that generate approximately two-thirds of all new private sector jobs. The President's plan for economic growth and job creation, along with his small business agenda, has been successful in creating an environment in which entrepreneurship can flourish. The SBA's FY 2005 budget is good for America's small businesses and good for the American taxpayers.

The SBA's total budget request is $678.4 million. This budget request provides for a strong, successful SBA that can effectively and efficiently meet the demands of its customers, America's small business entrepreneurs, while minimizing the cost to the American taxpayer. Through improved management and program reforms, the SBA will better serve America's small businesses.

The SBA requests $12.5 billion in lending authority for its 7(a) loan program – more than a 30% increase in authority over the level in the FY 2004 omnibus bill. The 7(a) subsidy rate for FY2005 is zero, putting our 7(a) loan program in line with our other major financing programs (504 and SBIC). This subsidy rate is a result of improvements in program design and management, in addition to the development of a new econometric model. The congressionally-mandated two-year fee reduction, designed to help small businesses during the recession, will expire at the end of FY2004 and the fees will return to their previous statutory level. The resumption to the statutory fee level will result in savings of nearly $100 million to American taxpayers, and also allow for a program that will be able to meet the demand of small businesses without being dependent on appropriations. Madame Chair, I am also recommending legislation that will give the SBA the permanent authority to adjust the 7(a) fees every year to keep the program at a zero subsidy.

This Budget Request will give SBA the authority to provide $4.5 billion in loans through its 504 Certified Development Company (CDC) program with no cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, continues to have job creation as an important program goal. The SBA has taken steps to increase small businesses' access to 504 loans by increasing competition among CDCs and streamlining processing. And, as requested, SBA developed an econometric model that is being used for the FY2005 budget request to more accurately measure the cost of the program.

During the course of the SBA's Microloan program's 12-year history, the private sector lending community has come to recognize that micro-borrowers are creditworthy and, further, that they represent substantial future growth opportunities. As a result, private sector lenders are now far more willing to lend to very small and to start-up businesses and in doing so are able to offer more competitive interest rates than the agency's microloan intermediaries. An SBA's analysis of the Microloan program discovered that every dollar lent under the program cost the taxpayers ninety-seven cents. At such a high cost, the agency believes that the SBA should not be competing with private sector lenders interested in developing this market, and has not requested funding for this program in FY2005. Further, the Agency believes that its 7(a) program provides an adequate incentive to lenders who feel that risk mitigation is required to make smaller loans.

In addition to the zero subsidy for our finance programs, this fiscally sound budget is consolidating delivery of services to small businesses which will provide better service to small business owners while resulting in savings of $30 million. The SBA provides a wide variety of technical assistance services to hundreds of thousands of small businesses annually, and it remains dedicated to providing those services in ways that best serve its clients, America's small business owners. Over the years, the agency's portfolio of small, specific, dedicated assistance programs has expanded dramatically. Unfortunately, funding for these programs has been inconsistent. In fact, many of these targeted programs did not receive funding in FY 2003. In addition, each individual, dedicated program requires specific infrastructure and delivery mechanisms, many of which are duplicative and wasteful.

The SBA believes it can provide a full range of technical assistance more effectively by using its core national delivery programs. The agency will work through its primary infrastructure of Women's Business Centers, Veterans Outreach, 7(j) Technical Assistance, SCORE chapters, the Small Business Development Centers and District Offices to meet the needs of all small businesses. These large core programs have proven their effectiveness. They have extensive resources and well-developed infrastructures. They can reach more customers and offer higher levels of service to targeted constituencies and, by eliminating the duplicative bureaucracy that is inevitably created by a large number of smaller programs, they can do it far more effectively.

This budget request includes $3 million to continue implementation of SBA's transformation efforts. I have spoken with many of you personally about the importance of transformation to SBA's future success. These efforts are crucial to the Agency's success in assisting small businesses in its second half-century.

The SBA has existed for 50 years, and much has changed. The agency now works principally through lending and other program partners to provide products and services to small businesses. To coincide with that changed business practice, the agency must realign its resources. The needs of the SBA's customers remain paramount, and modernizing and realigning the agency's human capital resources, operations, and organizational structure to match those needs is crucial to the agency's continued relevance. The SBA is consolidating back-office servicing functions, allowing field office staff to work more closely with their clients in the small business community. The agency's field offices are using technology, outreach, marketing, and customer relationship management to better meet small business needs. Through these modernization efforts, more SBA employees will be in more locations providing direct assistance to the small business community at a lower cost.

The SBA is implementing these modernization efforts based on the success of three district office pilot projects in which loan functions – specifically, 504 loan processing and liquidation and loan buyout processing – were moved to specialized, central locations. The pilots produced impressive results. The 504 program reduced processing time to just two days, seven times faster than the national average of two weeks. The liquidation and purchase pilot has been similarly successful – liquidation cases are now taking months instead of years, and purchases are at 23 days. These dramatic improvements directly affect the SBA's partner lenders, and ultimately, the agency's customers, America's small business owners.

The SBA' s Offices of Government Contracting and Veterans Business Development have been working closely with the Federal Acquisition Regulatory (FAR) Council on drafting regulations to implement PL 108-183, signed by President Bush on December 16, 2003. In order for the law to be implemented as expeditiously as possible, the new rules will be published as interim final rules, effective upon publication while at that same time allowing for a 60-day public comment period.

This budget request also includes continued funding for the agency's Disaster Loan Program. The SBA works very closely with the Emergency Preparedness and Response Directorate of the Department of Homeland Security to assist those small businesses and individuals directly affected by disasters such as tornadoes, floods and hurricanes. The SBA is a major part of the government's mechanism to get those people back on their feet in times of trouble when they most need assistance.

Madame Chairman, I want to take a moment to recognize the hard work of our Disaster team in assisting the victims of Hurricane Isabel and the wildfires in Southern California. This has been a devastating year across the country in terms of natural disasters, and the SBA has consistently been there to assist victims in recovery.

When I appeared before you last year, Madame Chairman, to present the SBA's budget, I testified about the accomplishments we had made so far, and outlined the challenges ahead. This year, I am proud to tell you that progress has been made in meeting those challenges.

Building on its success with the 7(a) econometric model, the SBA undertook an enormous effort to rebuild nearly all of our other subsidy models in 2003. As I pledged to you a year ago, we have completed a 504 econometric model, as well as new or modified models for the SBIC, Disaster Assistance, and Secondary Market programs. In addition, we have continued fine tuning the 7(a) model.

I would like to take this moment to recognize the extraordinary efforts of our CFO team which built these models. Building one econometric model in a year is an enormous amount of work, but our team built three and modified two others in less than a year's time. I am proud of their efforts.

These new or modified models will enable the SBA to allocate its resources more effectively, determine program risk more precisely, and increase our ability to target loans and programs to aspiring entrepreneurs who cannot obtain financing without a government guaranty. In short, implementing these models is a huge plus for small business and the taxpayers because we can now more accurately project the true cost of SBA's programs to the taxpayer.

Last year, I testified before you about the progress in establishing a loan monitoring system – and I am pleased to tell you that the system became operational in Fall 2003. LMS is an incredible success story for the SBA and the Federal government. We are utilizing industry best practices to measure the risk in our 7(a) and 504 loan portfolios. We are so proud of what we have achieved and believe it is the first time the Federal government has adopted such an approach for credit risk management purposes.

Last spring, we hired Dun and Bradstreet and Fair Isaac, two industry leaders in the field of risk management, to provide loan and lender monitoring services for the agency. Credit scoring is at the heart of the system delivered to us in September. Our 7(a) and 504 loan portfolios are credit scored quarterly allowing the SBA to quantify and evaluate loan and lender performance trends. The features of the system include an early warning component, risk ranking of all SBA lenders, and lender and portfolio benchmarking and peer comparisons. These tools, combined with our redesigned lender review process, results in a risk-based approach to oversight that provides the Agency with more meaningful information about SBA's lenders and is more streamlined and efficient, allowing us to better deploy our resources in those areas where the SBA has the most exposure while being less intrusive to the lenders.

Let me now address the issues raised by the SBA's recent financial statements. Let me assure you, I take financial management of the agency very seriously, and we are working diligently to address all of these complex issues.

Asset Sales: Soon after my confirmation in late summer 2001, I became concerned about financial management of the agency in general, particularly the asset sales program. In March 2002, I appointed Tom Dumaresq as the Chief Financial Officer and he in turn put a new financial team in place. This team identified discrepancies when reconciling the subsidy budget model with the actual performance of the sales. Losses were appearing on the financial statements while the model used to calculate the cost/benefit value of selling the loans showed a profit on the loans sold. The SBA then assembled a team of experts, including SBA staff, to identify the cause of this discrepancy. The assessment revealed that three separate areas caused the discrepancies. First, accounting entries overstated loan values and did not fully reconcile to subsidy estimates. Second, the agency's credit subsidy model, which assessed costs at a program level, did not always provide reliable loan cost estimates. Third, the model used to provide individual loan values for asset sales significantly underestimated the projected worth of performing assets and did not reconcile to the subsidy model. As a result, the SBA has rebuilt the disaster loan subsidy model and is now using all available loan data to project the cost of our disaster program. The bottom line is that the asset sales program provided a profit for the nonperforming 7(a) and 504 loans, but a loss for performing disaster loans. This has resulted in adjustments to the FY2001 and FY2002 financial statements as well as an upward re-estimate for FY2003.

Small Business Investment Company Program (SBIC): The venture capital industry suffered losses for the past several years, and the SBIC program mirrored that trend. Previously, the SBIC subsidy model did not use actual historical data, but rather used expert opinion based on industry experience of gains and losses. This year, the SBA is utilizing an improved risk model and actual historical data. The SBA has determined that the SBIC Participating Securities program needs approximately $1.86 billion more than was previously projected for the cost of guarantees made since 1994. This estimate includes $314 million in interest on the re-estimate (total re-estimate of $1.86 billion). The SBA is committed to maintaining the zero subsidy rate for this program and minimizing the costs to the taxpayer; therefore leverage fees will need to increase substantially to keep this program operating. The SBA submitted legislation in June 2003 that would make changes to the program, reducing the amount of the increase. The fee included in the FY2005 budget submission anticipates the enactment of this legislation. We look forward to working with you and with the venture capital industry to come up with additional improvements to the program.

Master Reserve Fund (MRF): The MRF was established to ensure that timely payments are made to investors that participate in the Secondary Market Guaranty (SMG) program. The SBA has improved the oversight and accounting practices of the SMG program for 7(a) guaranteed loans. To properly manage any risk associated with this fund, the SBA is budgeting for the government's liability as required by the Federal Credit Reform Act. This resulted in a $105 million upward mandatory re-estimate cost in the FY2005 budget. Due to administrative reforms being implemented in FY2004, this program will not require discretionary subsidy appropriations to operate in FY2005.

All of us at the SBA are quite proud of the Agency's legacy of achievement. Many businesses with household names today received SBA assistance in their formative stages. Who knows which of tomorrow's industry leaders are today receiving their 7(a) loans, their SBIC investments, their government contracting opportunities, or their counseling through the SBA's programs and services?

However, we at the SBA cannot rest on our laurels. The Agency must continue to keep up with and ahead of changes in the marketplace.

We at the SBA are committed to doing all we can to make sure those entrepreneurs receive all the assistance the Agency and its employees can provide. But the SBA cannot do this alone. I want to take this opportunity, while we are all together, to enlist you in these efforts so that this record of achievement will continue.

The SBA's FY 2005 request is a good one for America's small businesses and American taxpayers. It offers an opportunity for us to work together with you, our Congressional partners, to ensure that the SBA continues to assist small businesses into its next half-century. We ask for your support for this budget. Thank you for the opportunity to appear here today. I am happy to answer your questions.

Chair SNOWE. Thank you Administrator Barreto. We appreciate your testimony and obviously, I am going to be following up with some questions.

But before I do so, I would like to recognize Senator Pryor, a very important member of this Committee. We welcome you, Senator Pryor, for any comments that you care to make.

OPENING STATEMENT OF HON. MARK PRYOR, A UNITED STATES SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Madame Chair, and I want to thank you for your commitment to small business and helping small businesses get started and to maintaining themselves throughout the country.

I also want to thank Senator John Kerry who—I do not know where he is today, I am not sure he knows where he is today, but I know that he has been a very valuable member of this Committee and something that we are very focused on is trying to help small businesses.

I must say that I am a little bit troubled in that, as I understand this budget, there have been a number of decisions made that will not only impact Arkansas, but impact the country. For example, the budget does not fund the 7(a) Guaranteed Loan Programs, it eliminates the Microenterprise Program, and it cuts funding both for the Women's Business Center Programs and Small Business Development Centers.

And I know in my State, and I am sure everybody else's, the colleges and universities have taken advantage of some of those programs and they have really helped and had a good positive impact on communities all over this Nation.

So let me say I acknowledge completely the very important role that SBA plays with small businesses. And also, I acknowledge the extremely important role that small business plays in our economy. If you look at all the numbers, you look at real job creation, you look at employment numbers, small business is really where the action is.

A lot of times we focus on maybe the top 500 companies or the top 1,000 companies, whatever it may be. But really the bread-and-butter of this country and this economy is small business, entrepreneurhip, people who are willing to get out there and take a risk and put it all on the line. They are facing a lot of challenges, whether it is health care, finding the ability to retain employees, et cetera. They have a lot of challenges on their plate and I just hope that this budget will help and assist small businesses.

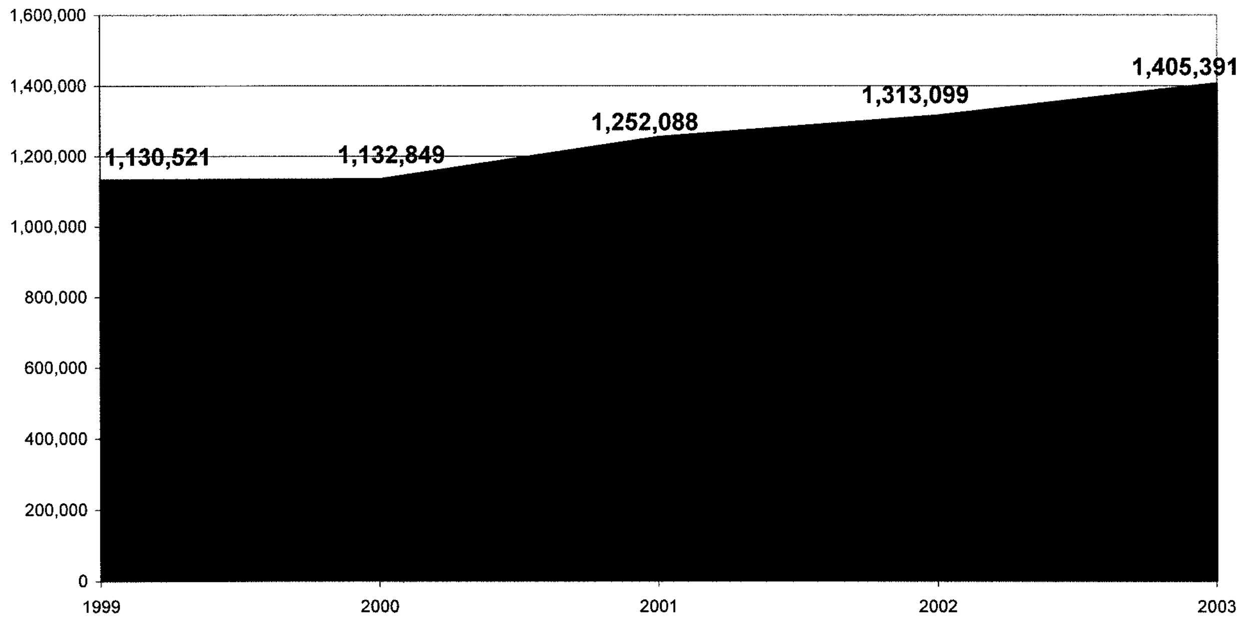
So, I appreciate your comments and I look forward to the question period.

Chair SNOWE. Thank you very much for your comments, Senator Pryor, and points well taken. These are some of the issues that we want to explore here today.

Just to reinforce what Senator Pryor has indicated about the job creation potential of SBA, I have a chart here—unfortunately, we just do not have it on a large chart—to show the total jobs created or retained by SBA programs since 1999.

[The information of Chair Snowe follows:]

Total Jobs Created or Retained by SBA Programs*
Fiscal Years 1999 - 2003



*SBA Programs cited are as follows: 7(a) Loan, 504 Loan, Microloan, SBIC, Small Business Development Centers, 8a Business Development, Surety Bond Program, HUBZone, Prime Contracting, Women's Business Centers.

Chair SNOWE. But I think it is illustrative of the point that SBA does have the capacity for job creation in this country. And I think those of us who represent small States like Arkansas and Maine, it certainly has been true. But it also is true across America.

So that is why there are concerns, Administrator Barreto, about perhaps some of the issues concerning, for example, the 7(a) program and the restructuring that is being proposed in the Administration's request. So let us start with that.

Obviously, we know what happened in the last few months. It has been a concern of mine, because actually I convened a roundtable last year around the whole issue of 7(a) and to what extent we should authorize that program.

And I heard a very different figure than what was included in the Administration's budget. That figure would have been more consistent with the demand that occurred and ultimately that led to the shutdown of the program, albeit it was temporary, but it did affect the credibility and the integrity of the program and the SBA with respect to this issue.

So I would like to have you address that issue, because clearly the program was reopened. But those small businesses that had submitted applications prior to the closure, prior to the deadline, they were then subjected to the cap of $750,000 even though their applications were not large.

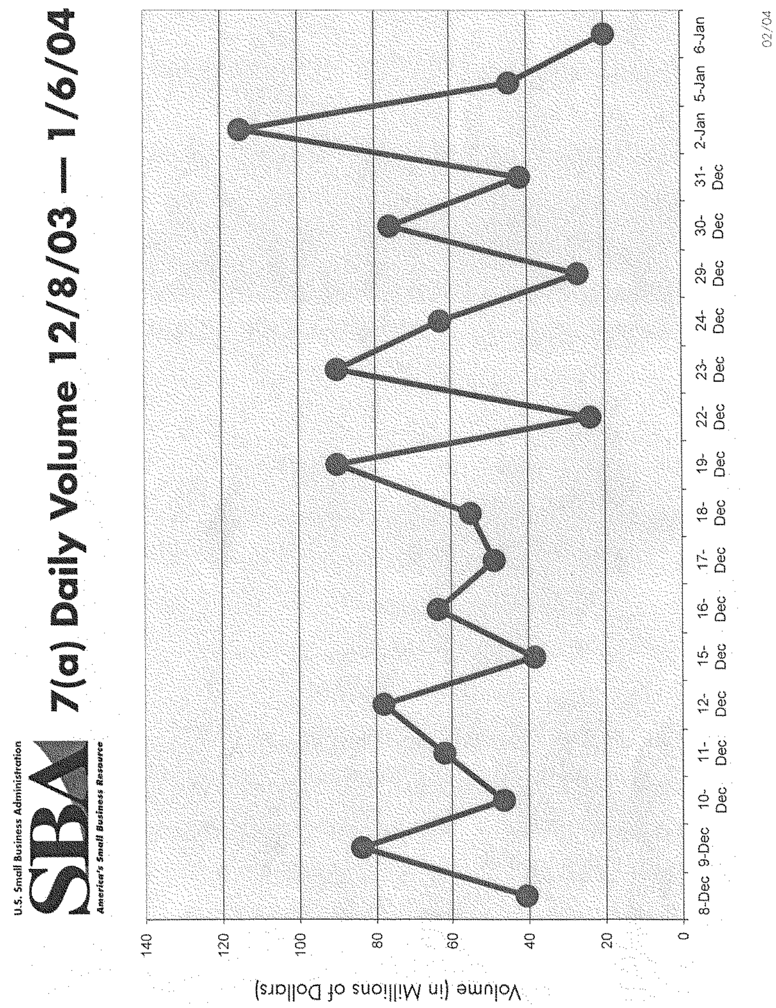
Was there not a way of spacing out those loans so that we could adhere to our commitment and to their expectations? What is clear from everything that I received in the form of anecdotal information throughout last year, the demand was far greater than what was ultimately going to be authorized for meeting the demand in the program of $9 billion.

So could we have done it in a different way that did not affect the credibility of the SBA program and people's dependency on it?

Mr. BARRETO. First, let me explain why it did happen. First of all, one of the things that we have really been challenged by over the last couple of years is the fact that we have been operating under a continuing resolution for 2 years in a row. It is very difficult for us to be able to manage a program like this when you are getting an apportionment for something that happened a year ago. If we would have had our budget, it would have been much easier for us to be able to manage and navigate this.

So that is what happened. There was no intention on our part to close down our program. We simply ran out of money. Obviously, as soon as that happened and as soon as it was beginning to happen, we notified Congress of our intention to look at possibly putting a cap on the loan program. And by the way, we had to put in a cap last year because we were on a continuing resolution. Last year, the cap was $500,000. We were going to propose a $750,000 cap.

I would like to put up a chart that shows the fluctuations in the volume that we were getting in the 7(a) loan program, because it is very illustrative. You see here at the end of last year what was happening to our loan volume. Usually we get about $25 million a day. But you see here these incredible spikes. We had days with $80 million. We had one day it was $115 million. It was absorbing a lot of our budget authority.


U.S. Small Business Administration
SBA
America's Small Business Resource
7(a) Daily Volume 12/8/03 — 1/6/04
Volume (in Millions of Dollars)
140
120
100
80
60
40
20
0
8-Dec
9-Dec
10-Dec
11-Dec
12-Dec
15-Dec
16-Dec
17-Dec
18-Dec
19-Dec
22-Dec
23-Dec
24-Dec
29-Dec
30-Dec
31-Dec
2-Jan
5-Jan
6-Jan
02/04

Something very important to know, Senator Snowe, is that 95 percent of the loans that the SBA guarantees are under $750,000. It is only 5 percent that are over $750,000. The problem for us is that those larger amounts are real estate loans or fixed asset loans that eat up one-third of the money.

This proposal that we are submitting today will help us to mitigate that. If we can move forward with that proposal in this year, we will be able to do some of those larger loans in the 7(a) loan program. Obviously, we want to achieve more in the 504 loan program as well.

The last point I want to make on this is that it would not have mattered what we would have asked for in a previous budget cycle. That would not have helped our situation at the beginning of this year because we were operating under a continuing resolution. So we were getting an apportionment that would have been similar to the previous year when we were not seeing these kinds of spikes in volume.

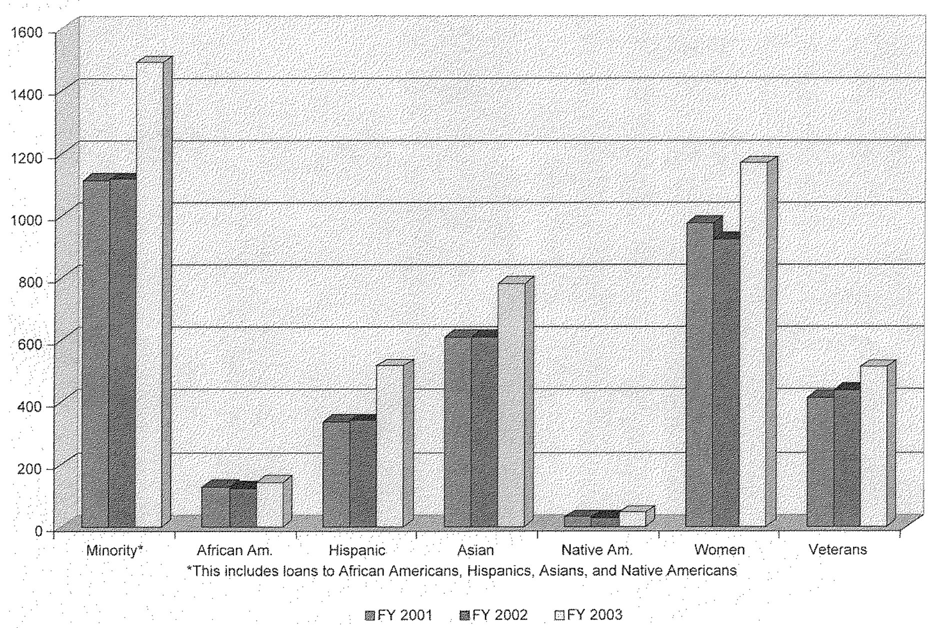
So I hope that helps to illustrate some of the challenges that we were faced with as we were ending last year and beginning this year.

Now, we have our budget. The Omnibus Bill has passed, thankfully. We are happy for the support that we were able to receive on that Omnibus Bill, because that helps us to be able to manage the situation a little bit better.

It does not solve all of the problems. We still want to pursue this proposal that we are making for this year. With the 30 percent increase that we are asking for in budget authority for next year, up to the $12.5 billion, we believe that the increase is going to help us to be able to accommodate this volume that we are seeing. We have kind of been the victim of our own success. We are not complaining about that, but we are making proposals that will address those issues.

U.S. Small Business Administration
SBA
America's Small Business Resource

504 Loans to Emerging Markets FY 2001 — 2003 (by volume)



02/04

Chair SNOWE. First of all, was this last year unique in terms of the volume and the spikes?

Mr. BARRETO. Yes, it was.

Chair SNOWE. I am sorry, I cannot read it.

Mr. BARRETO. I am sorry.

Chair SNOWE. Is that big spike, what is on the bottom? Are those years?

Mr. BARRETO. Let me explain it to you, and I promise I will get you a smaller copy of this.

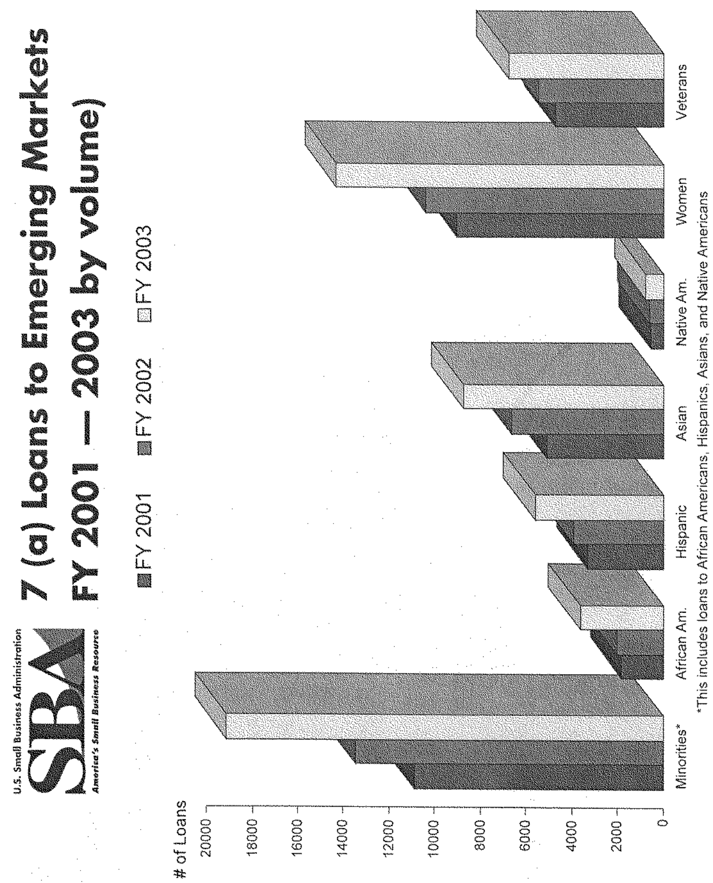
Chair SNOWE. I wish I had better eyesight.

Mr. BARRETO. This is starting at December 8th and it is going to January 6th. Basically what we are doing here is tracking daily volume. For us, a normal day would be $25 million. We did not have very many $25 million days in December. Usually, when you get into the holidays, volume spikes down. But you see here, on December 9th, we had an $85 million day. On December 12th, we had an $80 million day. On December 22nd, 3 days before Christmas, we had a $90 million day. On the day before Christmas we had a $90 million day. On January 6th we had $115 million day. So, incredible spikes.

By the way, some of those spikes are related to the fact that we communicated to Congress that we were going to look at putting a cap in. And what ended up happening is the industry flooded us with larger loans, these multi-million dollar loans that eat up much of the budget authority. It really exacerbated our situation.

I have one other chart I would like to show you. This is a 5-year average of what the program has actually done. I think there is some confusion here as to what it is that we asked for.

If you look at this chart, which is actually in billions, the yellow represents the actual expenditures. The blue line is SBA request and the orange line is the industry request. You see in 1999 the industry asked for something in excess of $10 billion. Well, SBA only did $9 billion. In 2000, they again asked for something close to $11 billion. Well, we only did $9 billion. In 2001, they asked for $11 billion. We only did about $9 billion. In 2002, the same. In 2003, the same. In 2004, the industry asked for $12.5 billion and that is what we are addressing in the proposal that we are making today, to obtain that $12.5 billion with an expansion of the SBA Express program.


U.S. Small Business Administration
SBA
America's Small Business Resource
7 (a) Loans to Emerging Markets
FY 2001 — 2003 by volume)
FY 2001
FY 2002
FY 2003
# of Loans
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
Minorities*
African Am.
Hispanic
Asian
Native Am.
Women
Veterans
*This includes loans to African Americans, Hispanics, Asians, and Native Americans

In 2005, we are asking for $12.5 billion, because now we know that the volume is there. For the last 5 years, our request has always been appropriate for what it is that we actually have done.

Chair SNOWE. In response to the earlier chart, in terms of volume, first of all the small businesses were playing by the rules and all of a sudden they were subjected to a cap. That cap has not been lifted.

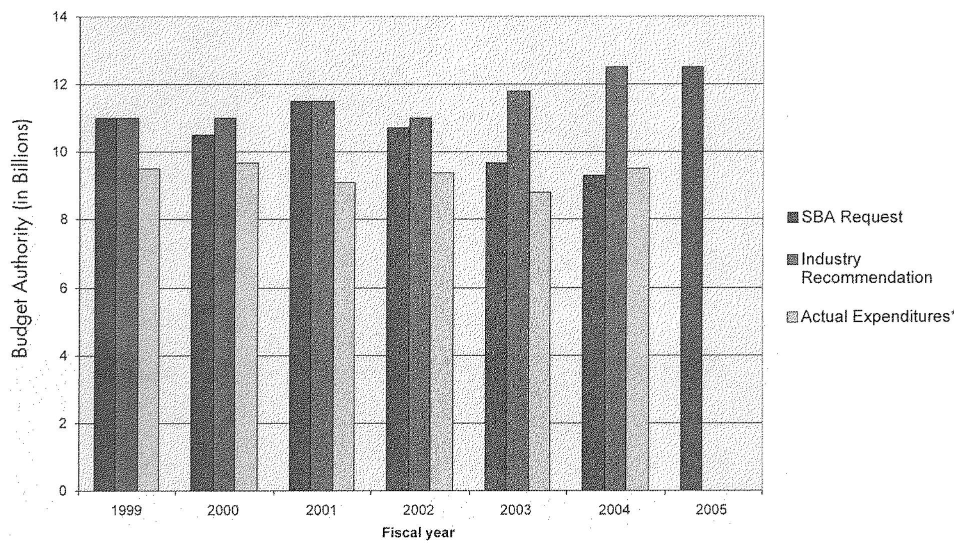
Mr. BARRETO. That is right.

Chair SNOWE. And that is a problem, because those 5 percent of the 250,000 businesses remaining. Their applications exceeded that cap already are going to be affected. They have spent a lot of money in making investments and processing that type of loan and their plans for the future.

I think it is a matter of trust in the final analysis. I mean, irrespective of what happened the question is those were the rules, that was the program. And there should have been some way to resolve the remaining issues regarding that program for those who were subjected to the cap and their applications exceeded it. I think we should have found a way to equitably resolve that problem in fairness to them.

U.S. Small Business Administration SBA America's Small Business Resource

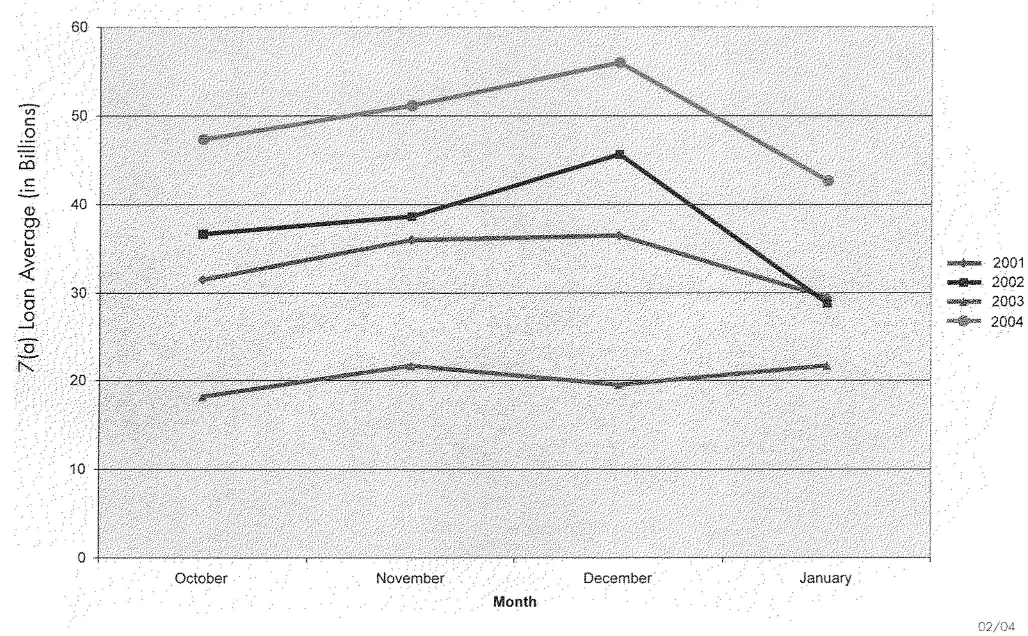
7(a) Program Requests vs. Expenditures FY 1999 — 2004



*FY 04 actual is the level contained in the FY 2004 Omnibus appropriations Act.

02/04

Demand for 7(a) Loans by Month FY 2001 — 2004



Mr. BARRETO. I agree with you 100 percent, Senator Snowe. By law however, SBA cannot make loans if we do not have money. We would be in violation of the law. We did return those applications out of fairness to the small businesses. We did not know how long our program was going to be closed. We did not know if we were going to be able to get any kind of a budget passed.

Luckily, we finally did get our budget passed. We were able to reopen the program.

By the way, a lot of those applications that were returned, they have come back to us and we have processed those loans.

Now, I want to reaffirm, 95 percent of the loans that the SBA does are under $750,000. We are helping 95 percent of the people that apply. Now, some of those loans that were above that $750,000 cap, they have already gone over to the 504 loan program, which we think is an excellent program. It is intended for those large real estate loans and fixed asset loans. So, we have addressed that.

We would love to take the cap off. But one of the things that the industry has told us is: look, caps are one thing. But when you close down the program, that is just impossible for us. We cannot have the program closed even for one day. So what we are doing is managing the program right now with a cap.

With the new proposal that we are making, we would be able to remove that cap tomorrow and accommodate some of those larger loans. The new proposal is going to get us pretty close to $12.5 billion in budget authority this year because we are going to be able to reduce that subsidy rate.

Chair SNOWE. In your previous chart, were we not still on track for the $12 billion in authorization? I think the point is, from everybody's calculation the demand for the program was going to result in at least $12 billion in authorization. Why did you not make that request last year?

Mr. BARRETO. There is no doubt about it. The reason is that we had no idea that 5 percent of the loans, those large, multi-million dollar real estate loans that are coming into the 7(a) program, the working capital program. We had no idea that those loans were going to eat up one-third of the money. You see, 95 percent of the people that borrow money from us are affected by the 5 percent who are making those large loans.

We are not opposed to making large loans. We want to make large loans. We have a program that can do that. The 504 loan program leaves $2 billion on the table every single year. We had no idea. It has never happened before.

And again, we have taken steps to address that. The industry has said: look, we want to do some large loans in the 7(a) loan program. That is why we put forward our proposal for this year. We will be able to do some of those large loans if we expand the SBA Express program.

Chair SNOWE. I have further questions on this issue, but I will recognize Senator Pryor.

Senator PRYOR. Thank you, Madame Chair.

One of the former members and chairs of this Committee, Senator Dale Bumpers from Arkansas, one time was in Pine Bluff, Arkansas and they had this locally operated loan program they called the Good Faith Fund. And basically, he took the concepts of that and brought it to Washington and he started the Microloan program.

My understanding of the Microloan program is that it has been very successful and it has helped an untold number of businesses and people get started in the process and really be productive in this economy.

In fiscal year 2004, in that budget, the Administration states that "the demand for microlending has increased because of the weakening economy and the increased awareness among potential entrepreneurs of the benefits of this program."

So can you explain to me, here we are one year later, can you explain to me with, I assume, the same demand or even greater demand, the Administration has determined that this program is now unnecessary?

Mr. BARRETO. I would be happy to Senator. A lot has changed in 12 years. We have been phenomenally successful with our loan programs.

Let me give you an example. When I first came to the SBA, the average loan size at the SBA in our 7(a) loan program was close to $250,000. Those were not Microloans. Most small businesses do not need $250,000 for working capital. They need smaller loans. They need a $50,000 loan or a $100,000 loan. They do not need millions of dollars.

So one of the things that we wanted to do was to get that average loan size down. And that is one of the reasons why the SBA Express program has been so phenomenal.

Let me give you an idea of what I am talking about. Last year, in our Microloan program, we did 2,442 loans nationwide. We lended out about $30 million.

By the way, we are not the only ones that do Microloans. There are many other organizations that do Microloans. They do them better than we can do them!

Now, through the 7(a) loan program, our flagship loan program, we did 23,335 loans for $424 million. Those loans were smaller loans. Those loans were under $35,000.

They were going to those underserved communities. Last year we broke a record, Senator Pryor. We not only did 30 percent more loans overall, a 50 year record at the SBA, we did 75 percent more loans to African-American businesses, 44 percent more loans to Hispanic-owned businesses, 35 percent more loans to women, 20 percent more loans to Asians, and 20 percent more loans to veterans. Across the board, we did more.

When we started this outreach initiative and started to promote our SBA Express loan program, everybody said it would not work. The lenders do not want to do loans in those communities. They are not profitable. They will not do the small loans. Do you know what? They were not correct. We were not only able to do more loans, we were able to do more small loans in every community.

As I said, those loans now are going into the flagship program. It costs us 97 cents for every dollar that we lend out in the Microloan program. We are not as efficient in implementing that program.

What is happening is that 10 times more people get those smaller loans in our flagship program than they do in the Microloan program. That is what has happened over the last 12 years in our Microloan program.

Senator PRYOR. As I understand the Microloan program criteria versus the Express loan and the flagship loan, et cetera, the demographics, the terms, the conditions, the purposes are different than the Microloan program. Is that a fair statement? How is SBA going to handle that?

Mr. BARRETO. I am not sure what you mean by criteria. I will tell you somebody has to submit to us when they apply for the 7(a) loan program. It is almost the size of a phone book. This is what they have to submit to us when they do a SBA Express loan. This is what is happening at the SBA now. This is one of the reasons why we are up 38 percent in our minority loans. It is easier to access our flagship program than ever before.

You see, I know a little bit about minority communities. I spent my whole life in those communities. Those communities deserve to have access to our best programs and our best services. That is one of the reasons why we have done the unprecedented outreach.

The good news is that the lending industry has spoken loud and clear. They like these loans, and they like these communities. And the reason that they do is because they understand it is good business.

Senator PRYOR. This budget also asserts that eliminating funding for the 7(a) loan guarantee program "will result in savings of approximately $100 million." Could you elaborate on that?

Mr. BARRETO. Absolutely. We think that is a very positive sign. There is a lot of talk right now about the SBA budget being decreased $100 million. It is being decreased $100 million because we are proposing a zero subsidy rate on our 7(a) loan program. This is not anything new for the SBA. Our 504 program is a zero subsidy program. Our SBIC program is a zero subsidy program.

What is happening is the 7(a) program is joining some of our other successful programs. We are modernizing the way that we treat that 7(a) program. We have a new econometric model that allows us to get that subsidy rate down.

And so the $100 million is not a decrease in what the SBA can do. It is a return to the taxpayers of $100 million that we do not need anymore, because the 7(a) program will be a zero subsidy program.

Senator PRYOR. I understand what you are saying about you do not need it, but my question is do those small businesses out there need it? Do they need that access to that extra $100 million that they are not going to have now?

Mr. BARRETO. What they need is a 30 percent increase in the SBA's budget authority. We have $9.5 billion in this year. With the zero subsidy proposal we are going to $12.5 billion.

The small businesses do not understand all of this talk about subsidy rates and apportionments and appropriations. They just want to know is it going to be easier for me to get a loan? And is there going to be enough money for me to borrow? This proposal does that, and at the same time, saves the American taxpayer $100 million.

Senator PRYOR. Let us talk about the fees that you are charging to process these loans, et cetera. As I understand it, some of these fees are going up fairly substantially in your budget; is that right?

Mr. BARRETO. I want to explain that, Senator. The SBA is not raising fees on small businesses. What is happening is that the legislation that Congress passed 2 years ago to take those fees down is expiring at the end of this fiscal year. What is happening is that we are going back to the previous fee schedule that existed. These fees are fees to the lenders.

I want to give you an example. There is a lot of talk about what these fees are going to mean. If you are processing a loan for $150,000 or less, the fee is going to be $8.34 a month. That would be the difference in the payment if that fee was passed on to the small business owner. If you are processing a loan for an amount between $150,000 and $700,000, one of those larger loans, the fee is going to be $29.14 a month.

There is a lot of talk on these larger loans, with $700,000 plus loans, there is no change in the fee. So we are not raising fees on small businesses. The legislation that Congress enacted expires at the end of this fiscal year. We are going back to the fee schedule that was there before.

Senator PRYOR. Would it be your preference that we continue those reduced fees?

Mr. BARRETO. My sense of it is that what the banks have proven is that these loans are very profitable. They are going to do these loans. I just think this is a more balanced and equitable way. And it also gets us to the zero subsidy rate and the 30 percent increase in our budget authority. The lenders have told us that is critically important to them. They cannot have the program shut down. They do not want to have any caps on the loans. They want to give larger loans inside the 7(a) loan program. Our budget, and also the proposal that we are making for this year, allows them to do all of that.

Senator PRYOR. Madame Chair, I have one last question I would like to focus on, although I may submit some for the record, if that is okay.

Chair SNOWE. Without objection, so ordered.

Senator PRYOR. Last year, you centralized the liquidation functions of the 7(a) loan guarantee program and you moved a number of employees to Herndon, Virginia. And I understand and actually agree that we should look for ways to save money and to save the taxpayers money and tax dollars and we should try to improve service.

But the implementation of the plan, whatever we do, I think needs to be done in a way that is fair and is not drastic. I must say that I believe you gave employees only about 7 days to decide whether they were going to relocate or take a buyout from the Government. Now, if they took the buyout, as I understand the terms of it, they could not return to work for the Federal Government for 5 years.

Under the circumstances that you had there, it was at the end of the year, it was during the holiday season, and obviously, it was a gut-wrenching decision for many of your employees around the country, I just do not know if it is fair, in my mind, to get rid of employees in that manner when they may be months away or maybe a year or two away from retirement. And I think that you should not be opposed to granting hardship exceptions for employees under these types of circumstances.

And I would like to hear your explanation about why you did what you did in the manner that you did it? And I would also like to know exactly how much money you saved by doing this?

Mr. BARRETO. First of all, let me explain exactly what this is all about. This is really about Transformation of the SBA. See, when we first came on board at the SBA, we realized that we were not as efficient or effective as we needed to be. And if we were going to be relevant in the future we needed to take some strong looks at how we do business. How is it that the SBA delivers its services?

This is not a new thing. We have been working on Transformation for almost 2 years. Obviously, we wish we could have done it much sooner than that, but we needed to work very closely with all of the stakeholders and make sure that we got their input.

We had an agreement with our union to be able to proceed with transformation. Transformation is working. It is working big time. We have now been able to reduce the time it takes to process 504 loans. For example, what used to take a couple of months is now down to as little as a couple of weeks. We have reduced the time it takes to do liquidations from years to a couple of months.

SBA does not do a lot of liquidations anymore. Most of our lending partners do the majority of those liquidations.

We determined that we needed to free up our offices in places like Little Rock and Maine to be able to work more with small businesses. We were bogging them down with a lot of process, with a lot of bureaucracy. So we made a determination to centralize that function. We offered every SBA employee a position with the Agency. We did not terminate those employees. We offered them a position in a new location.

Again, this is not something that happened in one day, in one week, in one month. This is something that we have been talking about for years. We took every effort to be as communicative and as responsive and sensitive to every one of our employees situation.

You are right, we offered some of them early retirement and some of them took it. We offered some of them buyouts and some of them took it. We offered some of them the new position in the new location and some of them took it. But not all of them took it.

It is very difficult for us, OPM has no standard for classifying hardship. We received many requests, and unfortunately, we were not in a position to put one person's hardship over another person's hardship. We gave those employees every opportunity to continue on with us.

We understand one of our most important assets is our personnel, and we want to keep our personnel whenever possible. But Transformation has worked. It has not only worked for the Agency and the taxpayer, but it has worked for the small businesses. We are doing things faster and better than we ever have in our history and that is what is at stake with transformation.

Senator PRYOR. If you could answer the second part of my question, how much money have you saved by doing that?

Mr. BARRETO. I do not think we can give you a specific answer. We think it is roughly $5 million that we will be able to save in this year, in 2004.

Senator PRYOR. Let me say this, and I do not want to speak for all the other Senators here, but I have heard a number of complaints from my constituents about this, about first the way you treated your employees during that process. I do not think you did yourself any favors, I do not think you built any positive morale by doing that in the way you handled it.

Secondly, from your customers, the people who are getting these SBA loans who are accustomed to being able to contact a local office, or at least someone that is fairly close by. For example, in our State, and our State capital in Little Rock, now they have to call someone in Virginia and who knows who they are going to get?

I will say that there seems to be, with my constituents, a disconnect in the quality of service that they are receiving because of this move.

Now it is a little too early to be able to judge that completely. But from anecdotal evidence, phone calls, letters, e-mails we have received in our office, this has not been received positively in Arkansas. And I am sure that is true in a lot of other States, as well.

Mr. BARRETO. Senator, we will be happy to come up and brief you on some of the success stories, some of the things that are actually happening. I just want to clarify, the liquidators, those are when loans are not successful. They are liquidating the assets of the small businessperson.

Liquidators are not out there in the community making loans, doing technical assistance, helping small businesses get contracts. We are much more efficient now.

I think it is much easier and much better for somebody to know that it is not going to take a year or more to go through the process. They can go through it in a couple of months now.

Again, we take very serious our relationship with our employees. I can tell you that I have been around the country—I have been to Little Rock, Arkansas several times, met with our district office people—we have some of the best people in the country working in our district offices—to make sure that this was not a surprise. Again, we did have agreement from all of the necessary parties that we needed to be able to do this.

Change is very difficult. It is always difficult. People would rather if we did not change, but we do not have any option but to change. If the SBA is going to be relevant and successful in the future, we have got to make good business decisions.

I think the decisions that we have made, especially in the long term, will be very positive. And I would be happy to meet with you and your staff to discuss what it is that we are doing with Transformation, because we think it is one of most important things that we will do for the future of the SBA.

Senator PRYOR. That is all I have, Senator Snowe. Thank you.

Chair SNOWE. Thank you very much, Senator Pryor.

Administrator Barreto, on the issue of the 7(a) program, and obviously, this Committee is going to be examining the proposal that you have submitted to the Committee, but one of the issues and it gets back to last year and what occurred, because obviously, the program was on track for doing essentially at least as much as the previous year. That was clear. In fact, the previous year in the 7(a) program was about $11.3 billion. So that is why I was mystified, and the Committee was mystified, as to why you would request something less than that, $2 billion less than that, on the $9 billion.

We do not want to have a repeat scenario. And so that is what we really have to examine with your request now of a little more than $12 billion when you have a statutory authorized level of $16 billion. So the question is why you have not requested the full authorization? That is number one.

Secondly, on the zero subsidy rate, and obviously I am going to hear from the next panel and there will be concerns raised about what that rate is going to imply. Is it going to be too onerous for some small businesses?

Secondly, the 50 percent guarantee that is a decrease from the 75 percent, is that going to make it more difficult for small businesses to get the type of loans, because some of them may be riskier and require a higher guarantee? That is going to be another question that will be raised. So those are some of the issues.

I know you have also requested eliminating the 15-day notice and it probably will not come as a surprise to you that I will not be supporting that, because I do think it is important to have a 15-day notice to Congress. And I know that did not happen with the 7(a) program on three different occasions in this last month.

We really do need to be notified, because we have a public accountability and oversight responsibility as well.

So obviously, I certainly do not intend to move in that direction, because I do think it is important for Congress to be notified and I hope that we can, in the future, adhere to that 15-day notification.

On that, because I want to go to the next issue on HUBZone and also to what Senator Pryor raised on Mircroloans. We are going to have to look at those issues, because those are some of the questions. I hope that the Committee can work with you on those issues and to examine them. Because I know in just reading the testimony of the second panel, there will be those issues raised.

And will there be uncertainty with the size of the rate that will be required, since it will not be an appropriation? I understand the value and the attractiveness and not depending on appropriations to move ahead in the 7(a) program. I think that is obviously an interesting notion. The question is what does that mean in the final analysis with the type of rate that will be imposed on small business?

Mr. BARRETO. I think there were several questions in there and I want to make sure I answer all of them.

Chair SNOWE. Can you also include the piggyback issue?

Mr. BARRETO. You may have to remind me what order those questions came in, but I will do my best.

First of all, last year was not an apples-to-apples comparisons. You are right, we did $11 billion, but $2 billion of that was STAR money. In other words, that was money made available to people that were affected by 9/11. That was a temporary program. If you take that $2 billion off, we did a little bit more than $9 billion.

As illustrated on the chart, we have consistently done between $9 billion and $10 billion. It is only now, because we have been making these changes to our program, especially the SBA Express program, that we have seen the kind of growth in the volume. That is a good thing.

The changes that we made in the SBA Express program, I wish I could take all of the credit at the SBA, but it really did not come entirely from the SBA. See, when we first came in office, one of the first things that I wanted to do was find ways for us to do more loans, to do smaller loans, to get into the minority communities, to do more women business loans.

So, I convened the lenders, all of my major lenders, community lenders, rural lenders. I brought them into the SBA. It had been a while since they had been there. And we talked to them. And they gave me a list of things that they wanted done. It was a long list. It was about 15 or 20 things.

And I said to them, I cannot do all of those things, but I can do a few of those things. What are your top priorities? And they said we will tell you what our top priorities are. We want you to expand the SBA Express program. Take it from $150,000 and move it to $250,000. And they said if you do that we will take less of a guarantee, we will take a 50 percent guarantee.

And they said and by the way, while you are at it, we do not want to give you a phone book of information anymore. We are tired of giving you this. We are not going to give you this anymore. We want to give you this.

And by the way, we do not want to use your forms anymore. We want to use our own forms. Can we do that?

And lastly, we do not want to be calling back and forth all the time. We want to transmit information to you electronically. Would you allow us to do that?

And we said yes to all of those things. It is one of the reasons why SBA had the banner year last year with regards to the 7(a) program. It is why we got our average loan size down. It is why we reached more communities than ever before.

So these proposals that we are making to you today and also with our budget next year are reflective of the direction in which SBA is moving. We believe that the SBA has become a better partner to the lending industry. The lending industry has told us very loud and clear what they expect from us, and we have tried to respond in each one of those cases.

With regards to the piggyback loans——

Chair SNOWE. Can I just ask why would you not request a higher authorized level allowed under law, $16 billion as opposed to the approximately $12 billion?

Mr. BARRETO. SBA, for the last 5 years, has done $9 billion to $10 billion. We try to look at what we have done to try to predict what we will do. I will give you an example——

Chair SNOWE. Excuse me, I just think that the point here is if we are trying to create jobs why put ourselves in the position of what occurred this last year? You can talk about appropriation, but this time you are going to talk about hitting a ceiling. Why create that ceiling when you are allowed to go $4 billion more? It just does not make sense to me when we are trying to create as many jobs as we can in America. I mean, we are desperate to create jobs.

Mr. BARRETO. That is why we are requesting the $12.5 billion in our proposal for this year. That is why we requested $12.5 billion for last year. We agree with you that we need to do loans that create jobs. That is the purpose of the 504 loan program. That is one of its basic centralized assumptions: if you do these larger loans in the 504 loan program, you are going to create more jobs.

Last year, we were up 20 percent in our 504 loan program. We have opened it up for competition and we think we can do more. But 504 is very illustrative, because we ask for $4.5 billion every year on that program. We are asking for it again this year. We are going to do that next year, as well. But we do not do $4.5 billion in the 504 loan program. I want to. I think that we can, especially with some of the changes that we are making in that program. But we leave $2 billion on the table every single year on that program.

So we want to be accurate, and we want to ask for what we need. We believe that this proposal will help us to do everything that we are being asked to do: the larger loans, to get the cap off of it, to possibly reduce fees for the lenders in the future. And that is why we have brought this proposal forward this year.

Chair SNOWE. Also, on the other issues, on the rate, how predictable will that rate be?

Mr. BARRETO. You are talking about the fees on the loans.

Chair SNOWE. That is right.

Mr. BARRETO. I mentioned to Senator Pryor that our figures tell us that the fees for loans worth $150,000 or less would be about $8.34 a month. For the loans up to $700,000, you are probably talking about a little bit higher fee, $29.14.

Chair SNOWE. Do you pretty much think that that will remain static?

Mr. BARRETO. If we get support on this new proposal, we think there is an opportunity to lower the fees this year and forward. We are working those numbers out right now and I will be happy to share some estimates with you, but we think that we can get some relief on the fees this year if we have support on the proposal that we are bringing forward.

Chair SNOWE. Obviously, we will be working with you on that. I plan to conduct a roundtable of interested parties on this very issue over the next week or so, because I do believe we need to have a sense of what direction we should take with respect to that. Because that is a profound difference. I understand why you are doing it, because I understand the nature of not wanting to depend on appropriations. It is a question of making sure that we all understand how it will work inevitably.

On the Microloan program, to which Senator Pryor referred to, because it is a critical program and it is one that obviously has worked well in Maine. Now I know that I am going to hear from the subsequent panel on some of these issues that you have just raised. The question is whether or not we will get sufficient lenders who will be willing to engage in this process for these small loans. I think that is going to be one of the questions.

I know you are suggesting in your testimony that somehow lenders will be willing to make these loans. So that is one issue, whether or not that is true.

Secondly, in terms of the cost, we hear from other witnesses who say that the cost of the technical assistance and the program operations are also counted in determining the loan and that is why it contributes to the higher cost in delivering that loan that you have indicated in your statement.

The question is whether or not many of these banks are going to be willing to make these loans. And I think this Microloan is also very appealing, because it does begin the process of business startups. It really does encourage entrepreneurship in our economy, which is also needed.

So I just would like to have you address some of those issues, because I do think it is going to be important and this is a program that I have certainly supported and has worked well in Maine. And obviously, Senator Pryor and others, from smaller States especially, for small businesses or individuals who might not be able to get loans elsewhere.

Mr. BARRETO. Yes, Senator. The good news is that the lenders are already making the smaller loans. I mentioned to Senator Pryor that last year we made 2,442 Microloans. Those are the smaller ones that we make. Last year, in the 7(a) loan program, especially through our Express program, we made 23,335 loans, 10 times more than we make in the Microloan program for more than 10 times the dollars, $424 million in those 7(a) loans under $35,000 versus $30 million. That is $424 million versus $30 million in the Microloan program.

Just to break it down, for example, in Maine we did 7(a) loans, 409 loans for about $40 million. Loans under $150,000, we did 331 loans for a little over $15 million. The SBA Express loans, we did 230 of those loans in Maine for almost $11 million.

Now in terms of Microloans, in Maine we did 39 Microloans in Maine for $786,000. But we did 169 7(a) loans under $35,000 for $3.4 million in Maine.

What I am trying to say is that the lenders have already spoken. Not all lenders. Many lenders have told us that they do not want to do small loans. They said: we are not going to do them. That is not the business that we are in. We do not care about those loans, they are not profitable. We are not a philanthropic organization. I understand that.

Our responsibility is different. We have to make sure that we help as many small businesses as we possibly can in every community. Not just big businesses, not just medium-sized businesses, but small businesses, start-up businesses, minority businesses, women-owned businesses. And that is what we are doing with our 7(a) loan program now. That is what we are doing with SBA Express.

That is what our proposals that we are submitting today and the budget in 2005 are going to do.

So the good news is that I think that we can do both. I think we can do some of those larger loans, and our proposal allows us to do that. But we will continue doing what we have been doing. I do not think it is a bad thing that we do more loans than ever before, that we got that average loan size down, and that we reach every community within the small business community. That is what we are supposed to do, and that is what we are committed to doing.

Chair SNOWE. Again, we are going to explore those issues with you in the future to make sure that we know what direction we are taking and what the ultimate impact would be.

Finally, just on the HUBZone, I know you are not going to make a request for a separate line item. The Senator from Missouri will be mighty disappointed if I do not raise these questions. And it is important, because obviously, you have chosen to put that in the category of Government accounting and business on the budget.

The question is one, as to what the implications will be for that program, what the impact would be? Secondly, why was more not requested for the HUBZone? It is only 17 percent of the 8(a) program and yet there are many more firms under the HUBZone program than there are in the 8(a) program.

So I wish you could address some of those issues and again we will explore it. Obviously, we are not opposed to new ideas and delivering these programs differently or more efficiently or whatever. I think the question is making sure that we have a true understanding of the impact in the final analysis.

This program is working very well, especially in distressed areas. It has worked well in Maine. I know it has worked well in Missouri and in other parts of the country and we want to make sure that it does. So I was just wondering why it is budgeted so much less than some of the other contracting programs?

Mr. BARRETO. Thank you, Senator, for that question.

We have learned a lot over the last couple of years. One of the things that we know is that HUBZone programs are important. They are very important. And they are too important to take a risk that they are not going to be funded.

You see, over the last couple of years, we have requested funds for HUBZones and they have been zeroed out. Now we did not zero the HUBZone program out, because we think it is important. So we kept managing that program, but it really put a strain on us, because we did not receive an appropriation.

So we have moved that program into where we believe it should have been all along, inside of SBA's program office called Government Contracting and Business Development. It is a Government contracting program. We will continue to support that program, but I believe that we ensure its future by moving it in there and making sure that we invest resources.

As you know, we have requested a much larger amount for our Government Contracting Business Development program, over $2 million that will be sufficient for us to be able to support not only the HUBZone program, but all of the other programs.

And you are right, it is currently receiving less funding than the 8(a) program. 8(a) is a very important program, too. In fact, those programs are at parity.

One of the things that we have seen is that the number of businesses participating in the HUBZone program now has increased dramatically since we have been on board. We have close to 10,000 companies. We think we can get that to over 13,000 or maybe 14,000 companies by next year.

We are also seeing other positive signs. Not just the fact that we still have a HUBZone program, but those HUBZone programs are doing more contracting than ever before. The most recent figures that are available to us show that it went from about $680 million to almost $1.7 billion in contracts. That is good, good but it is not enough. It is nowhere near to what the 8(a) program does, but 8(a) has been around a lot longer. It is more established.

So we think there is a lot of opportunity for us to continue growing the HUBZone program. A lot of times people do not understand that there are many companies that are both HUBZone and 8(a) certified companies.

So those are tools. Those programs are tools to help small businesses in historically underutilized business zones and socially and economically disadvantaged small businesses get their access, their fair share of the Government contracting pie. And we are very committed to that.

So I hope that you will share with my original home State Senator, Senator Bond, that the HUBZone program is healthy and its prospects for the future are very good.

Chair SNOWE. I appreciate that. One of the issues concerning HUBZones is the volume of contracts awarded to the HUBZone firms. And I gather it has fallen below the 3 percent statutory goal of .71. Why is that the case? I know in my State it is like a 39 percent decrease.

Mr. BARRETO. We are making significant increases and as I mentioned, probably $1 billion more in the last year for which we have information. It will be a lot more in 2003.

Again, there has been also this rapid growth in the number of HUBZone companies. When I first came, I think there were about 4,000 HUBZone companies. There are 10,000 HUBZone companies now, and that is going to go to 13,000 or 14,000.

The day before yesterday, I was at one of my business matchmaking events in Anaheim. I want you to know that we had over 1,000 businesses there, not just from Southern California, but from other states, as well. Ron Newlan, the head of the HUBZone organization was there. We work very closely with him. And I was very happy that he had a number of his HUBZone companies there, because we are thinking outside the box. We are not just waiting for those opportunities to materialize, but we are really facilitating a lot of those opportunities. The things that we have done with regards to contract unbundling, the changes that we are making to our program and streamlining the process so that we can get more people involved in there.

We know that before, it used to take somebody a long time to get in one of these Government contracting programs. And then once they got in, then it was good luck to you. We do not do that anymore. What we try to do is surround those small businesses with the tools that they need to succeed. They need training and education. We are providing that. And they need real access to decision makers.

Last year, through these matchmaking events, we set up over 11,000 one-on-one matches between small businesses and hundreds of Government agency buyers and Fortune 500 companies. We will do more than that this year.

I think we have a chart here, just to give you an example of the growth of some of these matches that we are facilitating. These are some of the events that we have done over the last year-and-a-half. Cleveland, we set up 1,600 appointments; Orlando, 2,400; Chicago, 1,800; Birmingham, 749.

One in Birmingham was with the Black Chamber of Commerce and Harry Alford's Group. NECE, that was our national conference last year, 1,300; Houston, 3,300. We just did Anaheim, we will do more than 3,300.

We need to do more of that. It gives those small businesses the confidence that we really are doing something proactive for them. They have told us for years it is very hard to do Government contracting, and we are trying to streamline that and make it easier and provide them with some real opportunities.

We cannot guarantee them contracts. We should not guarantee them contracts. But we should create the right environment for them to succeed.

Chair SNOWE. Senator Pryor, do you have any additional questions?

Senator PRYOR. I do not really, Madame Chair, except for maybe just one. And that is you talked about zero subsidy and that is a good thing in your mind?

Mr. BARRETO. Yes, sir.

Senator PRYOR. You are moving the SBA toward the zero subsidy approach pretty much across the board; is that fair to say? Or you are trying to get to zero subsidy in all the programs you can?

Mr. BARRETO. We have been at zero subsidy with the 504 loan program, a very successful program. We have been at zero subsidy for some time with the SBIC program. And so the 7(a) program is just following what I believe is a positive trend. It allows us to be able to do more loans and reach more people than we ever have before.

And at the same time being able to save the American taxpayer over $100 million that we do not have to spend for a program that can support itself.

Senator PRYOR. As I understand, when you talk about zero subsidy, you are talking about there are no tax dollars wrapped up in the loan?

Mr. BARRETO. No appropriation to do 7(a) loans; that is correct.

Senator PRYOR. But do not some companies need that subsidy? Do they not need that to help them get started? And will not the Government get their money back fairly quickly in payroll taxes and getting people off unemployment rolls, et cetera? Are there not cases where some companies need a subsidy?

Mr. BARRETO. In this case the subsidy is going, because of the subsidy rate that we have, we believe that with the improvements that we have made, the econometric modeling that we have done with regards to the subsidy rate, we can get that down. With the management changes that we have made, we can improve our ability to be able to offer those funds.

What is happening is—what small businesses tell me is I do not care what you call your program. I do not care how the watch is built. I just want to know what time it is. And will they be able to get these loans easier? Will there be less paperwork? Will they be able to get loans at larger levels if they need to? Will there be more money available to be able to get these loans? And in all those issues, the answer is yes. That is what has been happening now over the last year. It is a very positive trend. We are breaking 50-year records and will break records every single year if we continue doing the things that we have been doing.

At the end of the day, that is what is important to small businesses.

You see, when I first came on board, many small businesses said I can take a yes and I can take a no, but the maybes kill me. Too much paperwork, too expensive, takes too long. And so what we have done is we have streamlined our process so that we can be a better partner to them. We have become a more passionate advocate for the things that are more important to them and we have definitely been more responsive to them than at any time in our history.

So at the end of the day I think that is what small business expects from us.

Senator PRYOR. In my mind, streamlining the process is great, but that is slightly different than zero subsidy. That is apples and oranges.

What I am asking is if you have a zero subsidy approach to these loan programs, are there some businesses now, because you have gone to zero subsidy, that will not be able to get the loan, because you have gone to zero subsidy?

Mr. BARRETO. I do not believe there is any business that can qualify for a loan that will not be able to get a loan because we are at a zero subsidy rate. Again, we have other successful programs that are zero subsidy that are doing more than ever before.

I think it's because we have been able to prove that we can make these loans more efficiently, that we are more effective at doing them, that this is a cost-effective way of lending. That is one of the reasons that we are able to get that subsidy rate down to zero. So we believe that this is actually going to be a net benefit for thousands of small businesses.

Let me give you an example. This last year we did 67,000 loans in our 7(a) loan program. 67,000 loans. That never happened before.

With this new proposal, we think we can get to 90,000 loans. Tens of thousands of small businesses that were not getting loans from us before will get them now. That is what I think is critically important, more job creation, more capital where it belongs, in the hands of small businesses.

Senator PRYOR. I am not trying to dicker with you on this, but what I am saying is you have emphasized how you are getting efficient, less paperwork, and I understand that. What that means to me is that there is a smaller barrier between the lender and the borrower. If it is easier to fill out the paperwork and faster and it is more certain, that is great. But the question I am asking is, are we also not reaching down low in our economy with these struggling businesses that cannot qualify? They cannot go to a bank and get a loan. They have to work with the SBA to get a loan.

So as I understand your testimony, what you are saying is it is your belief that we are not denying anyone loans otherwise?

And the reason I say that is because the numbers do not mean anything to me, because if it is easier to get it maybe there are a lot of other companies out there that are now trying to get it that just did not want the hassle before. But what I am worried about is the weaker companies or the start-ups, whatever you want to call them, that really otherwise—I mean SBA is their only way they are going to get the resources they need.

Mr. BARRETO. Senator, I hope this will assure you. The reason that we are going to zero subsidy is because we are reaching more of those small businesses. Let me explain to you why.

There is no way we get to zero subsidy if we do not have an SBA Express program. The SBA Express program allows us to get that subsidy rate down to zero. It is a 50 percent guarantee which moves that subsidy rate down.

And the reason that we did more loans, more smaller loans to all of those groups that I mentioned before, minorities and women, is because many of those loans were happening through the SBA Express program.

In other words, the exact opposite is true. We will reach more of those struggling businesses, more of those businesses that were never getting loans with the SBA. When I first came on board, the average loan size was almost $250,000. That shut out a lot of those businesses. Our average loan size last year was a little over $160,000 and going down.

It does not mean we can not do big loans. We will do big loans. We will do big loans in the 7(a) loan program and we will also do them in the 504 loan program. But we will reach more of those smaller emerging market businesses than we ever have in our history. And that is what allows us to go to the zero subsidy rate, because of the success and the effectiveness of the SBA Express program.

Senator PRYOR. Thank you.

Chair SNOWE. Thank you very much, Administrator Barreto. We appreciate the fact that you took the time to be here today to answer our questions forthrightly, and we are looking forward to working with you. We applaud you for what you have been doing as an advocate on behalf of small business throughout America and for your enthusiastic and energetic leadership on behalf of the Small Business Administration. So many things have worked very well.

I also appreciate the innovation that you have brought to the Agency, as well, and to programs and thinking differently and creatively. I want to express my appreciation on the alternate work sites, including Maine in that program now. I think it is just another example of the type of creativity and innovation that you have brought to the Agency. And also in showing how things can be done differently and bringing those resources to people who need them.

So I thank you and I commend you.

Mr. BARRETO. Thank you very much, Senator Snowe, Senator Pryor, it has been an honor to be in front of you today. Thank you very much.

Chair SNOWE. Thank you.

We have a panel and I notice we have a vote. Let us bring forward the second panel. Mr. Tony Wilkinson, who is the President and CEO of the National Association of Government Guaranteed Lenders; Mr. David Coit, who is Chairman of the National Association of Small Business Investment Companies; Ms. Mary Mathews, who is the former Board Chair of the Association for Enterprise Opportunity; and Ms. Ellen Golden, was is here to represent the Association of Women Business Centers that represents 89 Women Business Centers across America.

I would like to have you all summarize your testimony if you can. There is a vote on, so Senator Pryor is going to chair the Committee and I will go vote and come back. So we will ask you to begin with Mr. Wilkinson.

Senator PRYOR. [Presiding.] Go ahead, I am ready when you are.

STATEMENT OF ANTHONY WILKINSON, PRESIDENT AND CEO, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS, INC.

Mr. WILKINSON. First of all, I want to thank the Chairwoman and Senator Kerry, Senator Pryor, for your leadership on the 7(a) issues that are before us today.

As Senator Snowe said in her opening, that the SBA loan programs are a critical lifeline for many small businesses and that is absolutely correct. From bank call reports we know that there are about $485 billion in outstanding small business loans in this country. But of that $485 billion, only about 20 percent of those loans have maturities in excess of 3 years, which would put that at about $95 billion.

Compare that with the outstanding 7(a) portfolio, which is about $40 billion, and you can see that the SBA 7(a) program is one of the largest, if not the largest, single source of long-term capital for small businesses in this country. This program is critically important to the health and vitality of the small business sector.

Yesterday there was a hearing on the House side, in the Small Business Committee, where four small businesses testified about the adverse impacts they have suffered under the actions the Administration has taken regarding the closing of the loan program earlier this year and then subsequently not being allowed to resubmit their loan applications.

It is unbelievable that applicants who lived by the rules, filed their applications on time, did everything they were supposed to do, had the rug pulled out from underneath them and were told simply too bad by the Agency. They have not been allowed to resubmit their applications, because these were applications that were in excess of $750,000.

These small businesses create jobs. They needed the financing to grow and hire new employees and to do the things that they needed to do in their communities and they have not now been able to do so. It is a travesty and I hope that with your help we will continue to fight this issue to see that those applications that were filed on time get processed and get approved, because there is simply no reason why the Agency is not processing those loans.

Rather than summarize my testimony, I am just going to touch on a few things that the Administrator talked about. First of all, the Administrator seemed to be a little bit selective on the information he provided regarding the industry's estimate of loan demand. For the current fiscal year, we had anticipated loan demand at $12.5 billion. At the end of the first quarter we had done $3.122 billion, which puts us on pace of $12.5 billion, a pretty good estimate.

Last year we estimated $11.8 billion. We did $11.3 billion and there was a $500,000 loan cap in place for the first 5 months of the year. Obviously, we would have done more lending had the loan cap not been in place, and our estimate of demand would have been pretty close.

For 2002, we estimated $11 billion. We did $9 billion in the regular program and an additional $1.7 billion in STAR. So our estimate of demand for the last 3 years has been very good.

The Administrator also mentioned that 95 percent of the loans made have been under $750,000. But with the loan caps in place, both this year and last year, we have missed an opportunity to finance a lot of businesses that need financing. I can tell you that there been businesses that have been caught in the current prices who had made down payments on contracts, who had approval from their PLP lender, which is a pretty good comfort factor in this program, only to have the rug pulled out from underneath them. They have lost down payments. I cannot tell you the number of firms that have been financially harmed by the actions taken by the Administration this year.

Now the Administration rolls out a new proposal that we have not been briefed on nor have we had any discussions about it. From our perspective, this program is not broken. It does not need to be overhauled. It needs the support of the Administration.

The concept of a 50 percent guarantee, or excuse me, expanding the Express program. The Express program today is primarily a credit scored product. Major commercial banks in this country use their credit scoring models. The average loan size in the Express program today is $48,000. They have got the ability today to take Express up to $250,000. There are a few loans that are made in excess of $100,000, but not many. Most of the Express loans are the under $100,000 variety.

So to conceptually put in place a plan that would make all loans at 50 percent guarantee really does not seem to be reasonable on our part.

The Administrator said the industry flooded them with larger loans during the notification period. Well, every time the Administration announces a loan cap, the requirement for the announcement is intended to allow those applicants who have started their processing and begun to pay fees to get the necessary documentation together time to finish their application. That is exactly what happened. People heard the deadline. They took the steps necessary to finish the application. This is not the first time that this has happened. Every time that there has been a loan cap announcement we get a spike in loan demand. This is nothing new.

So to say that the industry flooded them with larger loan applications, that meant that there was strong demand from small business out there who need access to capital and they were the ones who took the steps necessary to get their applications turned in on time.

The Administrator also talked about a 30 percent increase in loan authority in the fiscal year 2005 budget. Well, they needed it this year. They needed the $12.5 billion level this year. They are a year late to the party. All they are asking doing now is asking for straight-line authority into next year when chances are we are going to see continued demand on this product. So hopefully we can work through these issues and come up to some solutions.

The Administrator also said that the industry has said we need to get the restrictions lifted and get this program back up and running as quickly as we can. And we absolutely agree with that.

As you know, getting information from the Administration on some of the SBA issues has been very difficult. The Administrator said that the new proposal was going to be a savings to the taxpayer.

In the fiscal year 2005 budget, in the credit supplement page, there is documentation that says borrowers and lenders have overpaid in the 7(a) program $1.2 billion in the last decade. And to say now we need to take another $100 million out of the hide of small business does not seem quite reasonable.

Now the Administration did take some steps last year, they developed an econometric model. Thanks to the leadership of this Committee we passed legislation to allow SBA to use that model. Before we have any further discussions about programmatic changes, we would like to see the results of a GAO report validating that model. Is it fair and is it reasonable? Are we through with the period of time where we are overcharging borrowers and lenders for using this program? My understanding is that SBA has not been forthcoming with information and it has been a struggle for GAO to get the data necessary to validate the model. Until we see the results of that report, it is going to be difficult for us to engage in discussion about how the program might be changed.

Senator Pryor, I would be happy to answer any questions.

[The prepared statement of Mr. Wilkinson follows:]

SENATE COMMITTEE ON SMALL BUSINESS
"THE SBA FY 2005 BUDGET"
February 12, 2004

Prepared Remarks of Mr. Anthony R. Wilkinson
President & CEO
National Association of Government Guaranteed Lenders, Inc.
Stillwater, OK

The National Association of Government Guaranteed Lenders, Inc. (NAGGL) is a trade association for participants of the Small Business Administration (SBA) section 7(a) program. Our members account for approximately 80% of 7(a) loans made annually. Commonly called the SBA's "flagship" program, the 7(a) program has proven to be an excellent public/private sector partnership. Over the last decade, the SBA has approved approximately 450,000 loans for almost $100 billion. We thank the Committee for the opportunity to testify on the SBA FY 2005 budget request and other current issues facing the SBA 7(a) program community.

The Current Crisis

The current problem is a result of an inadequate FY 2004 budget request. The SBA approved over $11 billion in 7(a) loans in FY 2003. This number includes the STAR program—a temporary program for businesses affected by the events of September 11, 2001—which was run through the general 7(a) program. Still, the budget for FY 2004 was for only $9.4 billion in program authority. The SBA claimed that loan volume would decline in FY 2004 because the STAR loan program had expired. NAGGL argued last year that small business loan demand would not decline simply because a particular loan program expired. In fact loan demand in the last months of FY 2003 was almost $1 billion per month even though the STAR program had expired in January. In our testimony last year, NAGGL estimated FY 2004 7(a) loan demand of approximately $12.5 billion. Actual loan volume through the first quarter of FY 2004 was $3.122 billion, supporting this estimate of demand made in February, 2003.

Late in the afternoon on December 23, 2003, the SBA notified the Senate and House Small Business Committees of their intent to cap the SBA 7(a) loan program in 15 days, or January 8, 2004. The SBA set the cap at $750,000, reducing the loan size maximum $1,250,000 from its $2 million statutory limit. The timing of the notification raises the question, with the SBA approving about $1 billion per month for several months prior to the notice, why didn't the SBA admit its problem earlier?

Then on January 6, 2004, without warning the SBA then announced that it was shutting down the 7(a) program, injuring over a thousand small businesses and lenders, many of whom had rushed to submit loan applications before the $750,000 cap went into effect. The SBA had, in effect, closed the program before January 6 because the Agency stopped processing most large loans before then. The SBA then took the unprecedented step of returning all outstanding applications to lenders rather than processing the loans to the point of final approval. During similar funding shortfalls in the past, the SBA simply processed these loans but stopped just short of issuing a final approval, and, as additional loan authority became available, the pending loan applications were approved in the order in which they had been received. Not this time.

This year the SBA rejected all applications, returning hard copy loan files and destroying faxed applications. When the SBA decided to restart the program a week later, applicants and lenders were required to resubmit their applications for processing. For loans over $750,000 that had been submitted prior to the deadline, the SBA's response has been "too bad." The very federal agency that is supposed to be the small business's advocate has caused many small businesses undue harm and led to many anxious moments. Applicants spent time and money to complete their applications, only to have the SBA reject and return them; and many of these prospective borrowers had made irreversible commitments that they can no longer honor due to the denial of SBA assistance. We believe that this was an unconscionable act by the Administration, and we hope that Congress will demand that the SBA now process any application that had been received by the January 8th deadline. The SBA should not be allowed to circumvent the 15-day notice requirement in the Small Business Act.

Piggyback Restriction

When the SBA restarted the program, it added even more program restrictions, once again ignoring the 15-day notice requirement of the Small Business Act. Along with the $750,000 loan cap, the SBA announced a prohibition of 7(a) loans coupled with conventional loans in larger loan packages, frequently referred to as the "piggyback" structure. A lender utilizes the 7(a) program because an applicant has a credit deficiency. In some instances an applicant has a need that is larger than the maximum loan size allowed under the 7(a) program. To mitigate the risk, a lender may utilize a piggyback structure so the lender can meet the borrowers' financing needs.

For example, assume that an applicant needs to borrow $1 million. In a piggyback structure, a lender could provide a $250,000 conventional loan in a first lien position, and a $750,000 SBA 7(a) loan in second lien position.

This is similar to the loan structure provided in the SBA 504 program, but with two key differences. With a 504 loan the SBA has 100% of the credit risk on the second mortgage loan. With a 7(a) loan, under the piggyback structure, the originating private sector 7(a) lender has at least a 25% pro-rata share of the second lien loan, meaning the lender is sharing in the credit risk. The second difference is that the government collects substantially more fees on a 7(a) loan than it does on a 504 loan. From a subsidy perspective, the government would collect more fees on a 7(a) piggyback structure than they would on a 504 loan structure.

Piggybacks are especially useful when the SBA institutes a loan cap. Some of the applicants now caught by the SBA's unconscionable act could have found financing through a piggyback loan structure. With the new piggyback prohibition, there is no way to meet the needs of many applicants seeking loans in excess of the $750,000 cap. We request that this Committee, through legislation if necessary, require that the SBA allow the use of piggyback loans so that lenders have a vehicle to serve those small businesses that need larger loan packages.

Statistics

The SBA loan programs are the largest source of long-term capital for small business in this country. From bank "call" reports, the SBA office of Advocacy reports there are $485 billion in outstanding small business loans. From FDIC data, only about 20% of those loans (approximately $95 billion) have an original maturity over 3 years. The average original maturity of an SBA 7(a) loan is about 14 years, and the SBA 504 average is even longer. The balance of the outstanding 7(a) portfolio is approximately $40 billion—a significant percentage of all outstanding long-term small business loans. Small businesses simply cannot afford to have the SBA take arbitrary actions that destabilize their major source of long-term debt capital.

Small Businesses Harmed

The actions taken by the SBA in FY 2004 have gravely and irrevocably harmed thousands of entrepreneurs at a time when the nation's economy is struggling to create jobs. Most disturbing about this occurrence is that throughout 2003 the administration repeatedly ignored signs that loan demand was exceeding the SBA's available funds and chose not to act, instead delaying action until Congress had adjourned for the year. Rather than foreseeing and acting to prevent this crisis, one of the federal government's most important economic development programs has been destabilized. The SBA's recent action to reopen the program falls way short of what small businesses need. In fact the program remains closed to those borrowers who would have accounted for 40% of dollars lent prior to the SBA's recent actions.

FY 2005 BUDGET

Why More Fees?

On the heels of its inadequate 7(a) program budget request for fiscal year (FY) 2004, the Administration on February 2 proposed raising 7(a) program fees even more for 2005. The President's FY 2005 budget calls for a zero subsidy rate and no appropriations, both arrived at by allowing a 2-year fee reduction bill passed in 2002 to expire. Two years ago, Congress passed legislation decreasing the ongoing lender servicing fee from .5% to .25%, the borrower guarantee fee on loans of $150,000 or less from 2% to 1%, and the borrower guarantee fee on loans over $150,000 up to $700,000 from 3% to 2.5%. The Administration's plan is to let the fees revert back to their original levels.

The Administration is proposing no federal support for the 7(a) program—the first time in the 50-year history of the SBA that zero appropriations would be provided for the program. Additionally, the SBA is asking for authority to adjust fees in the future to ensure that the subsidy rate remains at zero. As of the writing of this testimony, the SBA has not provided any material details on its proposal.

It behooves us to ask how much trust we should have that we will get a fair and reasonable subsidy calculation going forward if we accept this proposal. Last year, the SBA and Office of Management and Budget (OMB) had to be forced by legislation to recalculate the subsidy rate. This year, Congress asked the Government Accounting Office (GAO) to validate the new subsidy model, and the SBA and OMB have stonewalled the issue by refusing to provide requested information. Finally, it is suspicious that the sunset of legislation coincidentally results in a subsidy rate of exactly zero. As of the writing of this testimony, the SBA has not provided material details explaining how the requested fee increase would bring the current subsidy rate of 1.06 to exactly zero.

It is disturbing that the program would face further fee increases (taxes) given that the GAO has documented the fact that 7(a) lenders and borrowers have already returned over $1.2 billion in excess fees to the Treasury. It does not seem to matter that the Administration had a budget bust this year, requesting too little program authority, resulting in loan caps and program restrictions that have harmed many small business applicants who had filed their loan applications in a timely manner. It appears that in addition to many borrowers being told "too bad " this year, next year's borrowers will be told "more fees" (taxes).

FY 2005 Loan Demand

With its FY 2005 estimate of demand of $12.5 billion, the Administration has finally recognized that small business loan demand has grown, albeit a year late. We question, however, the need to limit this program. If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why limit the program to anything less than the authorization limit of $16.5 billion proposed in the pending reauthorization bill? If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why not take steps now that will lift the lending restrictions and meet the needs of small businesses that exist today? We were told a few weeks back that the SBA was working on a formal reprogramming proposal. To the best of our knowledge, no such request has been submitted.

Conclusion

Last year NAGGL testified that a reasonable estimate of demand for FY 2004 would be $12.5 billion. The SBA adamantly opposed our estimate, saying that $9.3 billion would be sufficient. The result of the inadequate budget request and resulting inadequate program level has ended up harming many small businesses. Today many applicants cannot find financing for their larger loan packages. Meanwhile, jobs are being lost and businesses are closing their doors.

Small businesses do not need rhetoric about how important they are. Small businesses need to be treated fairly. Small businesses need access to capital. Small businesses need the Administration and Congress to support the SBA and its loan programs.

Thank you for the opportunity to testify before the Committee.

Senator PRYOR. Why do not we let Mr. Coit go ahead and make his comments and then we will take all the questions when Senator Snowe gets back. Go ahead.

STATEMENT OF DAVID COIT, CHAIRMAN, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Mr. COIT. Thank you, Senator Pryor.

Thank you for the opportunity to appear before you today to give NASBIC's views about the Administration's fiscal year 2005 budget proposal as it relates to the SBIC program.

The major point I want to stress is that the Participating Securities Program will end on October 1st if SBA's proposal is enacted. We agree that legislative restructuring is required, but it must not be done along the lines proposed by the Administration.

As the managing director of two participating securities SBICs, my goal today is help the Committee understand why SBA's proposal will not work and why we believe that NASBIC's proposal will work for all stakeholders in the program.

The Participating Securities Program is critical to the continued success of the SBIC program. Participating Securities investments currently represent 55 percent of all SBIC investments. Participating Securities investments have totaled $7.5 billion since the start of the program 10 years ago. 26 of 36, or 72 percent of all new SBIC licenses issued by SBA in fiscal 2003 were Participating Securities SBICs.

NASBIC supports SBA's proposed $4 billion in Participating Securities leverage for fiscal year 2005. However, NASBIC strongly opposes the restructuring proposed by the Administration. The proposal would not work for the talented management teams and knowledgeable investors we want to have in the program. I cannot stress that enough.

The current structure has worked because there is the potential for substantially enhanced returns to private investors investing in Participating Securities funds, but only if the SBIC performs above an annual 12 percent level of profitability.

That potential for enhanced returns is required to offset the many program negatives. Not the least of these are upfront fees and preferred returns for SBA, capital impairment and restricted operations regulations, SBA's liquidation preference, and the very real fact that private investors fare substantially worse than they would in a non-SBIC if profitability falls below 12 percent.

SBA's proposal would destroy the balance of the current program by increasing the negative elements and substantially reducing the positive elements.

SBA's proposal will not work for knowledgeable investors. In fact, even the existing program structure is too complex and too risky for most sophisticated institutional investors, particularly those with fiduciary responsibilities. As an example, the Maine State Retirement System gave strong consideration of a substantial investment in our first SBIC 10 years ago. Their review of the investment—and the Maine State Retirement System had never made a venture capital investment in the past—it had passed review of their Investment Committee and their Board and their Fund Adviser in Chicago. It actually got approved formally. But when the manager of the retirement system looked into the regulations, he went back to the board and said this is too complex. This is already a risky business. Adding in the complexity and the risks of the program, I think we should not go forward with our investment.

In contrast, NASBIC's proposal is simplicity itself. Investors, private investors, and SBA would share SBIC profits and losses on a pro rata basis. Based on the 20-year venture capital industry return statistics and average Treasury rates, adoption of our proposal would see the subsidy rate fall to zero. In fact, all data available indicates that the Government would actually make money as a long-term participant in the program.

Our proposal would eliminate all of the negative elements that most institutional investors object to in the current structure and attract additional capital sources to the program.

In conclusion, structured as we propose, the Participating Securities Program would accomplished the mission at no cost and likely a gain to the Government, would accomplish the mission without distorting the operations of the private capital markets, would attract the largest possible percentage of knowledgeable private investors and quality fund managers, and would stimulate investment in U.S. small businesses to the greatest possible extent during times of scarce capital

I just want to give one example of how SBICs provide capital to companies, particularly during a recession. There is a company in Maine named the Diamond Phoenix Corporation. It is in Lewiston, Maine. Diamond Phoenix is a world-class provider of warehouse automation systems.

In fact, I do not know if you remember a company called Webvan. This was one of the biggest dotcom companies back in the late 1990s. It raised $1 billion to build warehouses around the country to deliver groceries that are ordered online, and it failed.

Webvan searched the world markets for systems that would automate their warehouses and chose Diamond Phoenix Corporation of Lewiston, Maine. They actually also invested in the company so that Diamond Phoenix would not sell its technology to competing companies.

Obviously, Webvan did not survive and as the recession came on, capital equipment orders across the country declined substantially. So this company, which had world-class technology, began to suffer.

The management team did everything they could to keep the company going. They took cuts in their salaries, they mortgaged their homes, put money into the company. They got out themselves into the marketplace and did selling. They did all of the right things.

But the other element that allowed the company to survive, and I am proud to say it is back and profitable again as the economy is beginning to recover, is the fact that an SBIC, its only investor, was there and willing to step in and support them financially. That company could not get financing from the normal venture capital community and they are there today because of this program.

So in closing, I would like to reiterate how important the Participating Securities Program is in providing capital to so many of this country's small businesses, many of them in underserved markets like Lewiston, Maine.

I urge you to continue to support the Participating Securities Program and to consider NASBIC's proposal to make the program better for all its from stakeholders.

Thank you, Senator.

[The prepared statement of Mr. Coit follows:]

NASBIC
America's Small Business Partners

Statement
of
David M. Coit

President
North Atlantic Capital
&
Chairman
National Association
of
Small Business Investment Companies

Before The

United States Senate
Committee on Small Business & Entrepreneurship

February 11, 2004

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David M. Coit February 11, 2004

Madam Chair, Senator Kerry, members of the Committee:

Thank you for the opportunity to appear before you today to give NASBIC's views about the Administration's FY 2005 budget proposal as the same relates to the SBIC program. NASBIC is the only professional association dedicated to representing the interests of all licensed SBICs. We hope our views are helpful to the Committee as it considers the issues we will address today.

By way of background, I am President of North Atlantic Capital in Portland, ME, and also serve as Chairman of NASBIC. North Atlantic Capital manages two Participating Security SBICs focused on small businesses requiring capital in the $2 million to $5 million range. We concentrate on businesses located in the Northeast. A good example of one of our investments is Diamond Phoenix Corporation of Lewiston, ME, a leader in providing integrated material handling equipment, software, and control technology for order fulfillment systems. We first invested in the company in 1998 and have invested a total of $4.0 million over five years. I am pleased to say that our investments have been instrumental in helping the company grow to its current size—120 employees—and to weather the recent recession. Diamond Phoenix has eight offices in eight different states as well as an office in London, England.

Before turning to the budget, I would like to stress some of the statistics believe highlight the importance of the SBIC program to U.S. small businesses and the nation's economy.

- Since its beginning in 1958, the SBIC program has provided $40 billion of long-term debt and equity capital to 95,000 small U.S. companies, with $2.47 billion invested in 2,610 small businesses in FY 2003 alone. The number of U.S. small businesses receiving SBIC financing in FY 2003 was up 21% from the 1,979 that received SBIC financing in FY 2002.

- U.S. small businesses financed by SBICs in FY 2003 employed approximately 347,000 individuals—an average of 133 employees per company—at the time they received the SBIC financing. The median number of employees in SBIC-financed companies was 30.

- Companies less than three years old received 43% of all investments.

- SBICs play an important role in states not generally served by venture capital firms. Of the 2,610 U.S. small businesses that received FY 2003 SBIC financing, 1,112 (43%) were located in areas designated as Low- and Moderate Income (LMI) areas by the government. Those companies received $556 million (23%) of the total $2.47 billion in SBIC investments.

- SBICs are playing a vital role in our current national economic recovery. SBA reports that SBICs accounted for 59% of all venture capital investments, by number of investments for the period January through September 2003. For comparison, in 1997 it was just 38%.

- At present, there are 436 SBICs operating in 45 states, the District of Columbia, and Puerto Rico. SBICs hold $21.5 billion in capital resources—up 7.5% from $20.1 billion at year-end FY 2002—a significant increase given the contraction in other sources of venture capital. Of the total, $12.2 billion is private capital and $9.3 billion is SBA-guaranteed capital or commitments. In FY 2003, SBA licensed 36 new SBICs with $743 million in private capital.

- Over the past three years (FY 2001-2003) hard-pressed small U.S. manufacturing companies have received $2.6 billion (27%) of the $9.6 billion in total SBIC investments for the period.

- Many well-known U.S. companies received early financing from SBICs, including America Online, Apple Computer, Callaway Golf, Intel, Staples, Quiznos, Federal Express, Outback Steakhouse, Costco, and Vermont Teddy Bear. Eight of the top 100 fastest-growing U.S. companies in 2003 received SBIC financing (*Fortune*, September 1, 2003), as did six of the top 100 "Hot Growth Companies for 2003" featured in *BusinessWeek* (June 9, 2003) and 10 of the 100 "Top Information Technology Companies" (*BusinessWeek*, June 23, 2003).

NASBIC supports the Administration's budget proposal for the Debenture SBIC program.

If approved by Congress, the proposal would make $3.0 billion in Debenture leverage authority available in FY 2005 at a zero subsidy rate. A zero subsidy rate has been in effect since the start of FY 2000 for the Debenture program. In order to maintain the rate in FY 2005, an increase of 16 basis points is required in the annual interest paid by Debenture SBICs pursuant to §303(b) of the Small Business Investment Act (SBIA). NASBIC supports that very small increase. Based on the most recent pricing of Debenture leverage, that of September 2003, the practical impact of the increase would be negligible—raising the likely interest paid for FY 2005 leverage from approximately 5.73% per annum to approximately 5.746% per annum. The two tenths of one percent increase in the annual cost of leverage will have no impact of any consequence on either Debenture SBICs or the small businesses they finance. No legislative change to the SBIA is required to implement the Administration's proposal. We ask the Committee to support the Administration's FY 2005 proposal for the Debenture program.

In addition to urging the Committee's support for the Administration's budget proposal for the Debenture program, we applaud and urge the Committee's continued support for congressional action to remove Debenture indebtedness from the class of "Acquisition Indebtedness" that creates Unrelated Business Taxable Income (UBTI) for tax-exempt investors who would, but for UBTI, invest in Debenture SBICs. Due to the strong support and hard work of Senators Snowe, Kerry, and Bond, the legislative solution to the problem is pending as part of the Manufacturing section of S. 1637, the "Jumpstart Our Business Strength ('JOBS') Act." When enacted, the provision will eliminate a major fundraising impediment in the Debenture program and we expect to see substantial growth in the program and in its effectiveness to help small businesses in need of debt financing. As I know the Committee appreciates, debt capital has been in very short supply during the recession and continues to be difficult to obtain.

NASBIC supports the proposed $4.0 billion in Participating Security leverage authority for FY 2005, but strongly opposes the program restructuring proposed by the Administration.

The Participating Security program is critical to the success of the SBIC program as a whole. Designed to stimulate the flow of scarce equity capital to America's small businesses, it has done that very successfully. In FY 1995, its first full year of operation, the program saw Participating Security SBICs make $110 million in equity investments, just 8.8% of all SBIC investments that year. For the period FY 2002 through January 23, 2004—a critical economic period as U.S. business fought to survive the recession—Participating Security funds invested $2.8 billion, a full 47% of the $6.0 billion in all SBIC investments made during the period. In the current FY 2004, through the same January 23, Participating Security SBICs have accounted for 55% of all

SBIC investments. Twenty-six (72%) of the 36 new SBICs licensed by SBA in FY 2003 were Participating Security funds. Clearly, the program is providing the equity capital Congress intended when it created the program its 1992 amendment of the Small Business Investment Act.

Of perhaps greater importance, Participating Security SBICs have proven to be a much more reliable source of equity capital for small business than all other sources during the recession we have just endured. The high water mark for all venture capital investments in the U.S. was the year 2000, with investments totaling $103 billion according to Thomson Venture Economics. In 2003, total venture capital investments fell to $18 billion—a decline of 83% during the period of recession. In contrast, the $1.1 billion in Participating Security investments made in FY 2003 were 77% of their FY 2000 total—a decline of just 23% compared to the 83% decline for the entire industry. That performance in a very difficult economic period is testimony to the importance of the Participating Security program to U.S. small businesses.

The Administration's budget proposal projects $2.0 billion in potential losses in the Participating Security program. That number includes both realized losses and estimated future losses. Thus, as a starting point, it is uncertain whether or not the final figure will total $2.0 billion. Of greater importance is the context in which the losses have occurred. Again referencing Venture Economics, the quarter that ended September 30, 2003 was the 11th consecutive quarter for which venture capital funds sustained losses for the preceding 12-month period—"by far the worst streak in the industry's history." That history dates to the start of the SBIC program in 1958, a period of 45 years. Of significant relevance to SBA's estimate of losses is the fact that the Participating Security program saw $4.3 billion (57%) of its total of $7.5 billion in investments to date made in the 5-year period that ended September 30, 2000—the period just preceding the economic collapse from which America is just beginning to recover. It should surprise no one that the Participating Security program will realize losses associated with investments during that period. NASBIC has mentioned the likely losses often during the past three years. Those losses will accrue to private investors as well as SBA, and it will be years before the true nature of the losses will be known.

Faced with its estimate of losses in the Participating Security program, the Administration has determined that the structural model in place since the start of the program is flawed. Whether or not this is true is open to question since 57% of investments to date were made in perhaps the worst period of at least the last 45 years in which to make equity investments. However, given the projections made by OMB in its subsidy calculations, it is unlikely that any agreement might be reached between the industry—both management teams and private investors—and the Administration that would see the current structure retained with minor adjustments that would satisfy both sides.

In order to achieve a "zero" subsidy rate, the Administration proposes several major changes in the Participating Security program for funds licensed after September 30, 2004.

1. The budget anticipates congressional enactment of the legislation proposed by SBA last July. That legislation would keep the current structure—with all its negative elements—while changing SBA's share of the profits in profitable Participating Security funds to one-half of the percent of total capital represented by SBA leverage—an effective 300% increase in SBA's profit share. NASBIC opposed the proposal when it was made in July.

2. The budget narrative states that a substantial increase in fees—in addition to passage of the July proposal—is required to keep the subsidy rate at "zero." Although the legislative proposal regarding fees has yet to be filed, we understand that the proposal will include the following:

   a. an increase in the leverage "commitment" fee from 1.0% to 1.5% (the leverage "draw" fee would remain at 2.0%);

   b. an increase in what is now the 1.454% prioritized payment rate dedicated to SBA pursuant to §303(g)(2) of the Small Business Investment Act to 3.85%; and

   c. a radical change in the nature of the §303(g)(2) fee, a change that would make the full 3.85% per annum rate on outstanding leverage payable annually to SBA irrespective of profitability of the Participating Security SBIC in question.

We believe the Administration's proposal was made in a good faith effort to address the structural problems the Administration believes has led to its current losses. We want to stress the fact that we enjoy an excellent working relationship with the Administration, even when we disagree. Unfortunately, we are now at a point of substantial disagreement. The proposed economic structure would all but destroy private sector support for the Participating Security program. This is so for several reasons.

1. First, the proposal would reintroduce an annual, current coupon, "interest" charge for leverage. Since the law requires that all Participating Security leverage must be invested in equity securities, the change would reintroduce the mismatched cash flows that saw the original SBIC program plagued with losses in the 1980s, the very result of which gave birth to the current program. Either the law would have to be changed to permit debt investments—unlikely given the express purpose of the program—or Participating Security funds would have to use a substantial amount of their capital for interest payments instead of investments—a purpose again at odds with legislative intent.

2. Second, the proposal would reintroduce Unrelated Business Taxable Income (UBTI) issues for Participating Security funds that raise private capital from tax-exempt institutional investors, the very investors SBA and SBIC management teams want to attract to the program. Funds that create UBTI for their institutional investors find it almost impossible to raise money from these investors. It is a major issue since tax-exempt institutional investors control approximately 65% of the capital in the U.S. available for investment in venture capital funds.

3. Finally, even if we were to assume that the 3.85% rate were to apply only to the extent of profits—perhaps unreasonable given the Administration's estimates—the proposal would leave all existing program negatives (e.g., capital impairment and restricted operations regulations) in place while substantially increasing the risk that an investor in a Participating Security SBIC would do less well than by investing in a non-SBIC fund.

   For example, assume a Participating Security fund with leverage to private capital ratio of 2:1 and a 6.0% prioritized payment rate attributable to the pool securities sold to raise the actual leverage. Both are reasonable assumptions for modeling purposes. Applying the proposed changes, the "new" program's fund IRR (internal rate of return) "hurdle" rate—the fund IRR rate at which an investor's net return is the same whether invested in an non-SBIC fund or a 2:1 leveraged SBIC—would increase from approximately 12.0% to 18.3%. That is an increase of 53%. At an 18.3% fund IRR, private investors would net approximately 11.3% whether invested in an SBIC or not. Above the "hurdle," a private investor in an SBIC would do better than an investor in a non-SBIC fund, but only marginally so at gross return rates that likely to apply at least for the near future. At a gross fund IRR of 20% an SBIC investor's net return would be approximately 14.6% versus 12.7% for an investor in a non-SBIC fund. At a fund IRR of 25%—a rate slightly above the 20-year average for all venture capital funds—the respective net returns would be approximately 21.5% versus 18%. For virtually all private investors, this substantially reduced potential for return enhancement would not be worth assumption of the substantially increased risk of worse returns (attributable to SBA's preferred status) that they would realize if they invested in a Participating Security fund that performed below the increased "hurdle" rate. The structure proposed by the Administration is simply one that cannot be made to work for knowledgeable private investors.

Before turning to NASBIC's proposed solution to the existing problem, we would like to highlight one additional problem with the Administration's proposal for the Participating Security program. The proposal leaves unanswered the question of what happens to existing Participating Security SBICs that may require leverage from commitments to be issued after September 30, 2004. The logical extension of the Administration's budget submission is that any leverage authority for years following FY 2004 that will be required to support Participating Security funds licensed before October 1, 2004—funds whose economic structures cannot be adjusted in line with the proposal for contract sanctity reasons—will have a positive subsidy rate and require an appropriation. However, no mention is made of the very real potential problem and no appropriation request is included for FY 2005. It may be that the Administration assumes that 5-year commitments purchased prior to October 1, 2004 will solve the problem. However, that will not be the case for many funds, especially those licensed in fiscal years 2002, 2003, and 2004. Is there a solution to the problem short of attaining appropriations for any relevant year? Perhaps. We would like to explore with the Committee the possibility of a legislative extension of the effective dates of commitments issued prior to October 1, 2004. If that is not possible, some other solution must be identified.

NASBIC proposes a new Participating Security program structure that meets the requirements of all program stakeholders.

If the current structure for the Participating Security program will not work for the Administration and the Administration's proposed structure will not work for SBIC management teams and their private investors, is there a structure that will meet the needs of all stakeholders? We believe there is. Attached to this testimony is a policy paper that outlines NASBIC's proposal. It is the same paper that we shared with this Committee, the Senate Committee on Small Business and Entrepreneurship, and the Administration in January. Following its submission, we forwarded to Committee staff a proposed draft of legislation that we believe would successfully implement that policy.

Simply stated, NASBIC's proposal would create a Participating Security structure within which SBA would enjoy 100% of its pro rata share of the profits of any profitable fund. The structure would create, at least in economic returns, a structure identical to that used in the private venture capital world. If such an economic structure been in place since the inception of the program, we believe SBA would be substantially better off financially than it is today—a fact that can be confirmed by SBA upon inquiry by this Committee. While it is true that SBA would have to surrender its preferred position with respect to private investors if our proposal were accepted, that preferred position has been of little economic comfort to SBA over the last ten years. That is precisely why it has found it necessary to propose the changes that are unacceptable to management teams and private investors. Those private investors include major banks who are members of the Small Business Investment Alliance, banks that have made substantial investments in SBICs in the past and would continue to support the program under the structure we have proposed. These banks are strong supporters of the community development role played by SBICs across the country.

The crucial question for the Administration will be how to project cost or gain to the government if NASBIC's proposal is accepted. Regarding that question, the 20-year net returns to investors in venture capital funds with economic structures such as we suggest have averaged, according to Venture Economics data, approximately 16% per year. The cost to SBA to guarantee interest for the pools of securities sold to raise Participating Security leverage has averaged 6.7% per year since the first pool was sold in 1995. Interest rates have been at very low levels for the past two years. Excluding the pool rates of those years yields an average rate of 7.0%. Thus, if Participating Security SBICs perform to industry averages, a program structured as we have proposed should make money for the taxpayers over and above the gain for the economy related to the economic activity of the small businesses receiving the equity investments. Under any reasonable analysis, the subsidy rate in a Participating Security program structured as we suggest should be zero—even if return data are discounted somewhat because SBICs invest in a wider variety of businesses that are more geographically dispersed, than non-SBIC funds.

Implementation of NASBIC's proposal would produce an additional benefit for SBA: reduced workload. SBA Investment Division personnel are severely taxed due to the complexity of the current program and the multiple subjective decision points that must be addressed for each Participating Security fund. There is no counterpart to that level of activity or substitution of judgment in the non-SBIC portion of the venture capital industry. Implementation of the NASBIC proposal would allow Investment Division personnel to focus primarily on the critical licensing process and, of equal importance, on compliance by operating SBICs with all investment requirements. The highest possible level of performance in both areas is critical to the success of the program in meeting its intended purposes. At a time when all organizations are called upon to "do more with less," this point is an important consideration.

Will private investors support the program without the possibility of enhanced returns? The answer for the largest majority of investors in venture capital funds—bank and non-bank institutional investors—is "yes." The large majority of those investors avoid the SBIC program because of the substantial number of negative elements in the program that are discussed in our policy paper. Institutional investors seek reasonable returns for the asset classes they invest in, venture capital being one of the classes. The complexity of the current program, the preferences accorded SBA, and the other negatives associated with the program, keep the large majority of institutional investors on the SBIC sidelines. The structure we have proposed will be seen as a great improvement by this class of investors so critical to the ultimate success of the program.

Will talented fund management teams be attracted to the SBIC program if the structure proposed by NASBIC is accepted? Again, the answer is "yes." Notwithstanding the fact that institutional investors will find the structure acceptable, the universe of private capital from which SBIC management teams might draw will always be substantially smaller than the total universe of private capital dedicated to venture capital. That is so because SBICs can invest only in U.S. small businesses that meet the size and operational limits prescribed by the government. Thus, the government, by its guarantee, would serve as the creator of a substantial pool of capital from which qualified teams would be able to draw to achieve the fund sizes required to sustain operations if they want to invest in the types of opportunities dictated by the government.

In conclusion, thank you once again for the opportunity to appear today to give our views on the Administration's FY 2005 as the same pertains to the SBIC program. We look forward to working with the Committee this year to make certain the SBIC program, particularly a restructured Participating Security program, continues to meet the needs of all its stakeholders—especially the U.S. small businesses it is designed to serve.

NASBIC
America's Small Business Partners

Restructuring The SBA Participating Security Program

A. Summary

This paper discusses issues relevant to a possible restructuring of SBA's Participating Security (PS) program—created by Congress to increase the amount of equity capital invested in U.S. small businesses that meet size and operational requirements defined by the government. The program began in FY 1994, and the goal-oriented results through FY 2003 are impressive:

- More than $4.7 billion in private capital raised by the 221 privately managed PS funds.
- More than $7.4 billion invested by PS funds in U.S. small businesses during the period.

Notwithstanding its impressive start, the program's future is in doubt. SBA will lose substantial amounts associated with its guarantee of leverage for PS funds unable to generate profits sufficient to return that money. The 1997-2000 period was one of great increase in PS licensing and investment that was followed by a major collapse of the U.S. economy. Business failures and plummeting values of those that survived have made it all but inevitable that SBA will suffer substantial losses associated with investments made by PS funds during that period. In this regard, SBA is no different than virtually all investors making investments during the period.

OMB has used SBA's experience of the past ten years to change assumptions in the PS subsidy model that estimates how much the government might be expected to lose in the future. Not surprisingly, the model now predicts substantial future loses if the current economic structure of the PS program remains unchanged. While modeling based on results from such a short period, particularly one as abnormally volatile as the 1998-2001 period, is suspect at best, OMB has shown no inclination to change its opinion. A substantial increase in the subsidy rate would require a substantial—and likely impossible to secure—congressional appropriation to support the program at an effective level. Failure to secure the appropriation would reduce the PS program to a marginal program that would have virtually no impact on U.S. small businesses.

Industry is not opposed to an economic restructuring of the PS program. However, it cannot agree to a simple increase in SBA's of profits in profitable funds. Increasing SBA's profits without addressing program elements that are objectionable to private investors and management teams would yield the same negative result as trying to attain a major appropriation to support estimated program losses. The negatives elements are SBA preferences and debt-oriented credit restrictions in what is intended to be an equity investment program. The provisions do not protect SBA effectively and alienate the very private investors and management teams that SBA wants to attract.

A restructured PS program that eliminates these negative elements and sees SBA become, in economic terms, a pro rata investor in PS funds—an investor entitled to its full share of the profits of each fund it invests in—will best serve the interests of both government and industry. It will ensure a zero subsidy rate, the approval of the largest majority of private investors, and the availability of talented professional management teams crucial to the success of the program. NASBIC urges the Administration and Congress to support this restructuring approach.

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B. Current Status Of The Participating Security Program

1. Section 102 of the Small Business Investment Act (SBIA) provides the policy behind the SBIC program, including the PS program:

   > "It is declared to be the policy of congress and the purpose of the Act to improve and stimulate the national economy in general and the small-business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and long-term loan funds which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply: Provided, however, that this policy shall be carried out in such manner as to insure the maximum participation of private financing sources."

2. The SBIA does not indicate what financial result the government should realize in its running of the SBIC program. The only admonition is found in §303(e), the section dealing with "Capital Impairment." It provides that before advancing leverage to an SBIC, SBA should determine that doing so would not "create or otherwise contribute to an unreasonable risk of default or loss to the Federal Government."

3. Working with SBA, OMB sets the government's subsidy rate for the program. These annual calculations produce results that dictate how much must be placed in "reserve" to pay for projected out-year losses associated with leverage issued under any given year's authority. If the required reserve cannot be met by projected fees, profit shares, and subsidy "buy-down" prioritized payments paid by PS SBICs, Congress must appropriate the difference if it wishes to continue the program.

4. Based on current losses in the PS program, if no changes are made in the program's structure, OMB will project substantial losses for SBA's guarantee of any leverage to be issued in FY 2005 and thereafter. Although this may not be justified based on long-term historical returns to LPs in the venture industry, OMB is unlikely to be challenged successfully by either Congress or the industry with respect to its assumptions.

5. Given the above, the FY 2005 PS budget might be submitted in one of two ways. The likely way would see the budget propose to make substantial leverage (e.g., $4.0 billion) available in FY 2005 at no cost to the government (a "zero" subsidy rate)—with the caveat that the budget assumes and is predicated upon passage of proposed legislation either already submitted (or to be submitted) to Congress by the Administration. The most likely reference will be to the legislative proposal made in July of 2003.

6. If restructuring legislation is not passed, projected losses will be accounted for with a positive subsidy rate, requiring an appropriation to support the amount of leverage authority desired. The original subsidy rate for the program was 9%. At that rate, $4.0 billion in authority (the FY'04 authority) would require a $360 million appropriation. Assuming that the "subsidy buy-down" prioritized payment rate (which did not exist in

1994) would make up a portion of the requirement, a subsidy rate of something less than might be likely. However, even a 5% rate would require an appropriation of $200 million for $4.0 billion in leverage authority.

7. Any appropriation above $44 million—the high water mark that supported SBIC program leverage in FY'95—would likely be impossible to secure given the current budget environment, especially if no appropriation is requested by the Administration. Securing half that amount might be possible, although still difficult. Assuming a $40 million to $20 million appropriation range and a subsidy rate range between 5% and 10%, PS leverage availability in FY'05 might be anywhere from $200 million on the low side to $800 million on the high side. The current demand is estimated at $1.3 billion per year. The substantial shortfall would all but eliminate SBA's ability to issue five-year leverage commitments and leverage rationing would likely be inevitable. The program would continue, but would be marginalized. Support for the program by knowledgeable investors and talented management teams would evaporate.

C. Current Structural Elements Of The Participating Security Program.

1. Investment and Geographic Focus Requirements. The government imposes restrictions on the types and sizes of companies in which PS funds can invest. The government also takes into account the need for venture capital in the areas of investment focus stipulated by PS fund license applicants in deciding whether or not to grant a license. These foundation blocks will not change in any restructuring of the program.

2. Leverage Commitment and Draw Fees. Totaling 3.5% at present, all commitment and draw fees (with the exception of the 0.5% underwriting fee included in the total) are paid directly to the government. The fees are among the SBA cash flows used to predict future SBA losses in the program. With respect to private investors, they equate to preferred returns for SBA.

3. Leverage Pool Prioritized Payments. These contingent preferred payments (SBA's right to them dependent on an SBIC's profitability) are intended to reimburse SBA for the interest it has advanced to pay interest to investors purchasing interests in the pools of securities sold to raise the leverage drawn by the particular SBIC involved. The payments are preferred payments to SBA vis-à-vis private investors.

4. SBA-Dedicated Prioritized Payments. These SBA preferred payments, again made only if and when an SBIC becomes profitable, are based on variable rates set annually by Congress at the request of SBA / OMB. Like leverage commitment and draw fees, their purpose is to off-set predicted losses associated with the failure of SBICs to repay leverage principal and/or leverage pool prioritized payments.

5. A Reduced and Variable Profit Share For SBA. In return for investment restrictions, preferred returns, and debt-oriented credit risks discussed below, SBA receives a reduced, variable profit share from profitable PS funds. SBA's profit share is calculated by

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reference to both an applicable 10-year Treasury bond rate and maximum leverage ratio—a formula that, for modeling purposes, is generally accepted to yield an approximate 9% SBA profit at a 2:1 leverage ratio.

6. Complex Distribution Rules. The distribution rules are designed to regulate the return of SBA's prioritized return (in profitable SBICs), capital (SBA leverage and private capital), and profits. The distribution rules are complex and alien to investors accustomed to investing in non-SBIC venture capital funds.

7. Conditional SBA Commitments. A statutory provision in the SBIA requires SBA to conduct what amounts to a credit evaluation before advancing any leverage, irrespective of the fact that an SBIC may have already paid for a commitment. Under this authority, SBA may dishonor its commitments based on its unilateral determination that advancement of additional funds would increase risk of loss to the government, notwithstanding the fact that advancement of the amounts would be required to implement the full business plan approved by SBA in the licensing process. Thus, all SBA commitments are, in a legal sense, conditional. Private investor commitments, required to secure the PS license, are unconditional.

8. Capital Impairment Regulations. By reference to the capital impairment section of the SBIA to its general obligation to protect the interests of the taxpayers, SBA has adopted capital impairment regulations that permit it to restrict or shut down the operation of a fund by restricting its ability to make any additional investments (even with private capital) and, at SBA's option, to call remaining private capital for the sole purpose of repaying outstanding leverage. Private investors are particularly upset by these rights. While they understand and accept the risk of loss if the capital is put to its intended purpose—investment in small businesses—they are adamantly opposed to having their capital paid directly to SBA.

9. Liquidation Preference. Once an SBIC has been moved to "liquidation" status, which may be based on either regulatory violations or degree of capital impairment, SBA enjoys a preference vis-à-vis private LPs with respect to outstanding leverage and any earned but unpaid prioritized payments.

10. Absolute Control of Significant LP Rights. Absent SBA approval, private LPs in SBICs have no right to take any action on significant issues (e.g., management change, "no-fault divorce," etc.) generally within their province in non-SBIC funds. Non-SBIC funds generally provide for LP action in certain areas by vote of a super majority of LPs in the fund. Experienced LPs are very uncomfortable with any one LP holding a dominant position in a fund. That is even more so when the LP is the government.

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D. The Best Alternative For Restructuring the Participating Security Program

1. Any restructuring should address each of the following policy imperatives:

    (a) The program should stimulate investment in U.S. small businesses to the greatest extent possible during times of scarce capital availability.

    (b) The program should accomplish its mission at the least possible cost to the government.

    (c) The program should be attractive to the largest possible percentage of knowledgeable private investors.

    (d) The program should be attractive to the largest possible percentage of high quality venture capital fund management professionals.

    (e) The program should not distort private market dynamics any more than required to meet the objectives of the program.

2. The structural alternative that best meets all policy requirements would see SBA:

    (a) surrender its rights listed in §§2 through 9 of Paragraph C;

    (b) agree to a reasonable dilution of its voting "power" within the LP structure to the extent required by the "market" (defined as representative institutional investors); and

    (c) retain 100% of its pro rata economic interest in the fund.

3. Under this structure, SBA and private LPs would share profits and losses on a pro rata basis. Other than investment and geographic restrictions, a PS fund would be managed in almost all respects like non-SBIC venture capital counterparts in the private sector.

4. From the government's perspective, consideration of future losses should be eliminated so long as the government invested in SBICs on a regular basis. The average net return to private LPs in venture capital funds has been approximately 16% over the past 20 years according to Venture Economics. Even if discounted by some factor, returns to the government would still be positive over any reasonably projected period of time.

5. From the perspective of private investors, the only issue of importance would become whether the PS fund management team had the skills and business plan likely to produce standard returns for the asset class. There would be no distortion of investment decisions driven by the possibility of enhanced returns due to structural reasons alone. PS funds would still represent one of the best opportunities for investors to receive returns from investments in growing small businesses. The non-SBIC segment of the private equity industry has focused predominantly on larger investments in larger companies. SBICs would be of particular interest to those state pension funds and other institutional funds willing to invest in some venture capital funds that agree to invest in underserved markets. The current negative elements generally keep these investors on the sideline.

6. Finally, from the perspective of professional management teams required to actually "drive" the program, SBA would, for the first time, represent the possibility of securing "normal" capital that might satisfy up to two thirds of the amount required to reach the fund size required to start and sustain investment operations. To put the importance of this fact in perspective, many (if not most) institutional investors do not want their investment to constitute more than 10% of any venture capital fund. This fact would make the SBIC program very attractive to talented teams trying to raise capital during times when private capital is scarce—such as the present time—and at least very worthy of consideration during other times.

7. It is true that the very fact that the "government is involved" might make the program less attractive to management teams during times when private capital available for investment in venture capital funds is plentiful. However, that fact would make the program directly responsive to the policy articulated in the SBIA: a program "to stimulate and supplement the flow of private equity capital ... which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply...."

8. In view of the above, NASBIC urges the Administration to support a restructuring of the Participating Security SBIC program that would see SBA become a "regular" Limited Partner in the PS funds to the degree of investment committed to in the licensing process.

E. SBA's Pending Proposal Will Not Meet The Policy Objectives For The PS Program

1. In July 2003, SBA proposed a restructuring of the PS program that would increase the share of profits to which it is entitled by approximately 300%, but in all other respects would leave the program unchanged.

2. Although the potential for enhancement of private LP would remain, the potential would be greatly reduced from that of the current structure. Thus, the risk / reward balance would change dramatically with a 300% increase in SBA's profits and no corresponding reduction of complexity and / or private LP risk related to negative elements listed in Section C. This is particularly so given that many experts believe that average gross returns for venture capital funds may be no greater than the current SBIC "hurdle rate" of approximately 12% for the next decade.

3. SBA's proposal will not achieve the goal articulated in the SBIA or the other important policy considerations listed above. It retains all the unpopular complexity and unquantifiable risk elements of the current structure while reducing potential private investor returns. Adoption of the proposal would severely limit the pool of venture capital management professionals interested managing a PS SBIC. It would also limit the pool of likely investors to those who either did not understand the risks involved or who were attracted only by the potential for an enhanced return no matter how long the odds. Neither result would be good for the either the PS program—or for the U.S. small businesses the program is designed to serve.

Senator PRYOR. Thank you.

Ms. Mathews, we have a vote and the Chair is going to be back any moment. But I better leave and go vote, or I am going to miss the boat.

So why do we not take about a 3-minute recess or something like that. I know that Senator Snowe will be right back. She is on her way back right now, but I better race over there and vote or I am going to miss it.

There she is. Perfect.

You are recognized, Ms. Mathews.

Chair SNOWE. [Presiding.] Proceed, please.

STATEMENT OF MARY MATHEWS, FORMER BOARD CHAIR, ASSOCIATION FOR ENTERPRISE OPPORTUNITY

Ms. MATHEWS. Thank you, Senator Snowe. Just in time.

I want to thank you for this opportunity to appear before you this morning to talk about the proposed termination of the SBA Microloan program and PRIME in the President's 2005 budget.

I am here today representing the Association for Enterprise Opportunity. I am also President of the Northeast Entrepreneur Fund in Virginia, Minnesota. The Entrepreneur Fund is a rural microenterprise and small business development organization. We provide training, technical assistance, and financing to emerging and existing businesses in 11 counties in northeastern Minnesota and northwestern Wisconsin. We have been an SBA Microloan program participant since 1992. We do grass roots entrepreneur development in rural communities.

As you know, the President's 2005 budget terminates the Microloan program and zero funds PRIME. The SBA contends that the program is too expensive and that banks will use the 7(a) Express, Community Express and low doc guarantee programs to make the kinds of loans that we make now. We strongly disagree that these programs are capable of serving our Microloan borrowers.

The Microloan program was created in 1992 to help small business owners in need of small amounts of capital that are not yet bankable. The program is today the single largest funding source for microenterprise development organizations across the country and it funds about 185 organizations.

Intermediaries since 1992 have made over 19,000 loans totaling $213 million. Last year was a record year. We made over 2,400 loans, 2,442, as Secretary Barreto attested to earlier, totaling nearly $30 million. The program exceeded the goals that the SBA set for it in 2003. The goals were $28 million in new loans.

Our organization's average loan size is $9,000, considerably less than the 7(a) average of $167,000 which does not get quite to Microloans.

There two key issues that I would like to address. One is that we evaluated our portfolio. Senator Pryor asked Secretary Barreto about how deep the current SBA Express programs are reaching. So I am going to talk to you about our portfolio as compared to the lending criteria for Community Express, Express and low doc programs. Here is what we found.

First, 85 percent of the loans in our portfolio do not meet the minimum guidelines for equity injection. Two-thirds of our loans would not meet the minimum commercial lending institutions' creditworthiness guideline. Many of these customers show recent bankruptcy activity or judgments. The average credit score for our borrowers in 2003 was 561.

Over half of the loans in our portfolio the entrepreneur had no experience in the business they started and even more lacked the ability to manage a business in general.

The SBA's premise for terminating the Microloan program is that banks will use guarantee programs to make these loans. I would ask any banker in this room if they are interested in making loans to the people that I just described. Their answer would be no.

So what does that mean? The Secretary talked about programs that show real results and real measurable results. Our portfolio today, at 30 days our Microloan portfolio has a 2 percent delinquency rate. We have historically charged off 10 percent of our loans. In the loans we have made since 1997, 94 percent of those businesses are still in business and still operating. This is grass roots business development. These are real measurable results.

The SBA has contended that the program is inefficient and costly. A 97 cents per dollar loan number is used. The context for those numbers has not been presented.

This is an expensive program. Bankers say, and our experience confirms, that is costs as much to make a small loan as it does a large loan. If it was able to be done by banks, banks would be doing it. But they will not, because the transaction cost for a small loan is too expensive, in addition to the loans being high risk.

In closing, we would ask that the Committee support in the 2005 budget $15 million for PRIME, $30 million for loans to Microloan intermediaries, and $25 million for Microloan technical assistance. Banks using SBA loan guarantees will not fill the gap that we are filling as organizations. The demand is currently outpacing supply.

AEO and the intermediaries have worked with the SBA for program improvements. We know that there are more program modifications that could be made and we are willing to work with the SBA to do that and would like to have opportunity. We ask you to fund these programs, not terminate them, because terminating them closes the door on economic opportunity to businesses that will not be served by any other source.

Thank you, Senator.

[The prepared statement of Ms. Mathews follows:]

Mary Mathews, President
Northeast Entrepreneur Fund, Inc.
Virginia, Minnesota

February 11, 2004
U.S. Senate Committee on Small Business and Entrepreneurship
Hearing on the
President's FY2005 Budget Request for the Small Business Administration
Washington, DC

Good morning, Madame Chairperson, members of the Senate Committee on Small Business and Entrepreneurship, and guests. Thank you for this opportunity to testify before you this morning about the proposed termination of the SBA Microloan Program and PRIME in the President's FY2005 budget.

My name is Mary Mathews. I am President of the Northeast Entrepreneur Fund in Virginia, Minnesota. The Entrepreneur Fund is a microenterprise and small business development organization. We provide training, technical assistance and financing to emerging and existing businesses in eleven counties in northeastern Minnesota and northwestern Wisconsin.

As a former Board Chair and a member of the Policy Committee, I am here representing the Association for Enterprise Opportunity (AEO). AEO is a national association representing more than 450 microenterprise development organizations across the country. Many of our members are SBA Microloan Programs, PRIME Grantees, or Women Business Centers.

Microenterprises are small businesses with five or fewer employees with initial capital needs of $35,000 or less. Many microentrepreneurs are low income, women, minorities, or disabled individuals who may face other challenges to business success. Both the Microloan program and Women's Business Centers predominately serve women and minorities, while PRIME predominately serves very-low-income clients.

Microenterprise development organizations (MDOs) run community-based programs that provide assistance to entrepreneurs in three core areas: credit, training, and technical assistance. MDOs can be small, large, urban, rural or faith-based. Credit is supplied by MDOs to entrepreneurs with solid business plans and the potential to succeed. Training often takes place over the course of several weeks and requires a significant time investment on behalf of both the MDO and the microentrepreneur. Microenterprise technical assistance involves intensive and continuous business support that meets the particular needs of our target market.

Conventional sources of business credit are often beyond the reach of entrepreneurs who need small amounts of financing to start or grow a business when they are economically disadvantaged due to lack of business experience, sound credit history, or collateral to secure a business loan. The SBA Microloan Program continues to solve this problem by funding community-based intermediaries to help micro business owners gain access to credit.

The SBA Microloan Program was created in 1991 to help small business owners in need of small amounts of capital that are not yet "bankable" in the private sector lending community. The Program has grown from a small pilot program with 35 intermediaries in 1991 to a permanent program with over 185 organizations. The Microloan program is the single largest source of funding for microenterprise programs.

SBA Microloan Program Intermediaries have made over 19,000 micro loans totaling over $214 million. In FY2003, Intermediaries made 2,422 loans, totaling $29,932,410.49. This program exceeded SBA's Microloan goal of $28 million in new loans. Most of those loans went to women, minority, and low-income entrepreneurs. These loans would not have been made but for the SBA because in order to get an SBA Microloan, borrowers must demonstrate that they are unable to get comparable credit, at reasonable rates, from an area lender.

The Microloan program has two parts. The SBA makes low-interest, 10-year loans to Intermediaries who, like the Entrepreneur Fund, make very small loans to micro-entrepreneurs. The SBA also provides the Intermediary with an annual technical assistance grant that helps support the cost of training and technical assistance to borrowers. Microloans are high-risk loans, usually to start-up and early stage businesses. Technical assistance protects the Federal government's investment and it increases the entrepreneur's potential for success.

AEO and its members are asking Congress to appropriate $35 million in FY2005 for loan capital, $25 million for Technical Assistance grants through the Microloan program, and $15 million for PRIME. PRIME is specifically targeted to provide technical assistance to very low-income people. After 11 years, the SBA Microloan Program is just hitting its stride. Loan volume continues to increase each year.

As you know, the President's budget for FY2005 terminates the SBA Microloan program and zero funds PRIME. The SBA contends that the program is too expensive and that the 7a and Express Loan guarantee programs will serve market demand for microloans. While we applaud the growth in these guarantee programs and commend the SBA for program efficiencies that have helped build demand, we disagree. The SBA Microloan Program and SBA loan guarantee programs serve different markets.

To illustrate, I will use the Northeast Entrepreneur Fund as an example.

In the past 14 years, the Entrepreneur Fund has provided business development training and technical assistance to over 5800 men and women – all local residents – for many of whom this is their first exposure to business concepts. So far, this has resulted in the start-up, stabilization or growth of 692 businesses. Over 85% of the businesses, mostly start-ups, are still operating two years after receiving assistance. These are very small businesses, each owned and operated by a local resident who is creating their own economic opportunity. As a group, the business owners have generated a significant level of employment for themselves and others—over 1800 jobs have been created or retained so far.

The Entrepreneur Fund has been an SBA Microloan Intermediary since the program began in 1992. We have made 186 SBA microloans totaling $1,462,226. We have analyzed our SBA Microloan portfolio, comparing loan attributes against SBA7a, SBA Express and Community Express lending criteria. The results are as follows:

- 85% of the loans in our portfolio did not meet the minimum guidelines for equity injection by the customer in order to qualify for an SBA 7a loan. According to the SBA "Typically, an applicant should inject one-third to one-half of the total funds needed to start a business."

- Two thirds (66.67%) of the loans would not meet most commercial lending institutions credit worthiness guidelines. Many of these customers show recent bankruptcy activity or judgments. We recently started collecting credit scores. The average credit score of our approved loans has been 600, with a low of 485 and a high of 700. Half of the loans had good credit but low credit scores.

- The ability of individuals to manage the resources of their business, sometimes referred to as "character," is a prime consideration when determining whether or not an SBA 7a loan will be made. For over half of the loans in the portfolio, the entrepreneur had no experience in the business they started and more lacked the ability to manage a business in general. The Entrepreneur Fund's technical assistance program helps to educate and motivate the borrower until they gain the experience needed to manage the business and its resources.

So, given the characteristics of the borrowers, you probably wonder how our portfolio is performing. The Entrepreneur Fund's Microloan portfolio delinquency rate (over 30 days) is 2.1%. 10.1% of the portfolio has been charged off since 1992.

What makes the difference is the training and technical assistance provided by the lender. Our performance is not unique among Microloan programs. It is why, in 12 years, the SBA has only lost money due to a default once.

The SBA's premise in terminating the Microloan program is that banks will use the guarantee programs to make small loans. I would ask the bankers in the room whether, with a guarantee, they would make loans to the borrowers with the characteristics I just described. Not only that, the average loan size for 7a loans in FY2003 declined to $167,000. The Entrepreneur Fund's average loan size was $9000.

Bankers have often said that they don't make microloans because it costs them too much. It takes as much, or maybe more, time to make a small loan to a start-up entrepreneur as a large loan to an experienced borrower. And a large loan generates more revenue from interest. Most banks cannot afford to make microloans because of the time intensive nature of loan servicing and monitoring the loan, even with a guarantee.

We agree with the SBA that this is more expensive than their other credit programs, but the SBA is also not comparing "apples to apples" in assessing the true cost. Where else in the SBA is the cost of technical assistance and program operations counted directly in determining the cost of the loan? Both PRIME and Microloan Technical Assistance are Entrepreneurial Development functions, yet they are budgeted and housed on the credit side at the SBA.

AEO and the Intermediaries have worked with the SBA to make process improvements in the Microloan Program in the past. In the past two years we have made recommendations for changes in the allocation of Technical Assistance grants to make them performance-based. We have supported program changes that enhanced performance. As I said before, this program is just hitting its stride. Annual outcomes can only increase if the program is continued and the funding maintained. I hope I have helped make the case that other guarantee programs are not serving the same market. It is my understanding that there are 39 requests from Intermediaries at the SBA seeking additional loan capital as soon as the FY2004 budget is completed. There is demand for the product.

In closing, I would again ask that this committee support funding in the FY2005 budget for PRIME at $15 million, $35 million for loans to SBA Microloan Intermediaries, and $25 million for Microloan Technical Assistance.

The SBA's budget summary states an intent to re-design programs. We stand ready to work with the SBA on continuous improvement.

Don't terminate these programs and close the door to economic opportunity for the people these programs serve!

Thank you.

Chair SNOWE. Thank you, Ms. Mathews.
Ms. Golden, welcome.

STATEMENT OF ELLEN GOLDEN, ASSOCIATION OF WOMEN'S BUSINESS CENTERS

Ms. GOLDEN. Senator Snowe, I would like to thank you, Senator Kerry, and the members of the Committee for giving me the opportunity to participate in today's hearing.

I am Ellen Golden, Senior Development Officer for Coastal Enterprises, Incorporated in Wiscasset, Maine, and I am also here representing the Association of Women's Business Centers.

The Association of Women's Business Centers is a national non-profit organization that represents Women's Business Centers and women business owners across the country. Coastal Enterprises is a private non-profit community development corporation and a community development finance institution which provides financing and technical assistance in the development of small businesses, social services, and affordable housing.

CEI has been a Women's Business Center since 1995 and we are currently funded under the sustainability pilot.

The Women's Business Center program was created in 1988. It is a leveraged Federal investment in women's economic development that has enjoyed consistent widespread bipartisan support from Congress, and we certainly thank you, Senator Snowe, and the other members of the Committee for your consistent support for this program.

The 89 centers serve a range of women, minorities, low income women, women with disabilities, and veterans, as well as businesses at all stages of development, in all sectors and at a range of sizes. The program has grown from a demonstration with 3-year funding to a permanent program with an initial 5-year funding cycle. In 1999, with the overwhelming support of Congress, the program incorporated a sustainability pilot program that allows centers to apply on a competitive basis for an additional 5 years of funding.

In their brief history, the Women's Business Centers have become a key SBA resource partner. Their importance is recognized in the President's budget request where the Women's Business Centers are acknowledged as a component of the SBA's primary infrastructure, as highly effective, and as having a well developed infrastructure.

There are three points, however, I would like to make about the President's budget. The first has to do with the requested level of funding. The President requests $12 million, which is less than we received last year and it is simply not enough. The Association is asking that funds be appropriated at a level consistent with the current authorization, which is $14.5 million. This is what we need in order to meet the current commitments of the program and also to support the addition of new centers in areas that are currently not served by the program.

The program has been flat funded at $12.5 million for the past 3 years. In reality, flat funding means a reduction in funding. In addition to the effect of inflation and the increasing cost of operations, the sustainability centers lost between 12 and 19 percent of their funding last year, because there simply was not enough money to go around.

In fiscal 2005, under the current funding model, with an appropriation of $12 million, the grants to the sustainability centers would be cut in half. I think you can easily imagine what the impact on the program would be.

My second point addresses the goals of the Agency for the program. First, as noted, many centers have already had their funding reduced. Their resources are stretched to the point of breaking and, as I already said, $12 million does not cover current needs. Nonetheless, the centers are being expected to increase the number of women served by 18 percent to an unprecedented 130,000 women.

Secondly, the goals that have been developed for the Women's Business Centers have been developed without any discussion with either the Association or the centers themselves. There has been no attempt to determine whether or not they are realistic or achievable.

For example, in the President's request the Women's Business Centers are being asked to train SBA personnel on doing business in Native American communities, to implement and evaluate pilot technical assistance programs for Native American communities, to generate articles for the online women's business center, and to host the online women's business message board, which would be available 24/7. All of this with less money and increased levels of service.

Thirdly, we think it is unrealistic to imagine that the Women's Business Centers and the other key resource partners will absorb the additional demand resulting from the elimination and reduction of other SBA programs such as the Microloan technical assistance grants and PRIME. These programs serve different markets.

Moreover, the current demand for Women's Business Center services is already so high that clients at our center in Maine have to wait from 3 to 6 weeks in order to get services. The Women's Business Centers can simply not fill the gap left by the elimination or reduction of other programs.

The Women's Business Centers are as eager as other resource partners to contribute to the SBA's overall goals and to bring these essential services to existing and emerging entrepreneurs across America, but we need to be involved in the process of setting those goals and making sure that they are realistic and doable.

My third point addresses the issue of sustainability. As you well know, the SBA's currently operating under temporary reauthorization which expires on March 15th. Without reauthorization, the sustainability pilot will expire. Although there are some differences between them, both the Senate and the House reauthorization bills contain provisions for renewal grants beyond the initial funding period of what we have been calling sustainability.

We are deeply concerned that sustainability or renewal grants have not been taken into account in the President's budget request. There are currently 33 centers in the sustainability pilot and at least another 20 will be eligible to apply this year. Together, these two groups account for nearly two-thirds of the currently funded Women's Business Centers. These are the more experienced centers that have demonstrated their ability to meet the program's goal and to deliver quality services.

These are the well developed infrastructure referenced in the President's budget. These are the very programs that the SBA is relying on to achieve its ambitious goals and yet there is no mention made of a commitment to fund them.

The Women's Business Centers are a well developed and highly effective infrastructure. But if we pursue a strategy of inadequate funding, unrealistic goals, and an unwillingness to invest in existing capacity we will quickly undermine the effectiveness of this important resource. Thank you.

[The prepared statement of Ms. Golden follows:]

STATEMENT
OF
ELLEN GOLDEN

SENIOR DEVELOPMENT OFFICER,
COASTAL ENTERPRISES, INC.
AND
CHAIR,
THE ASSOCIATION OF WOMEN'S BUSINESS CENTERS

FEBRUARY 12, 2004

SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP HEARING ON THE PRESIDENT'S FISCAL YEAR 2005 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

Introduction

Thank you for inviting me to participate in this hearing on the President's Budget Request for FY2005 for the Small Business Administration. I am Ellen Golden, Senior Development Officer at Coastal Enterprises, Inc. (CEI) in Wiscasset, Maine and Chair of the Association of Women's Business Centers.

Background: Association of Women's Business Centers

The Association of Women's Business Centers (AWBC) is a national not-for-profit organization representing women business owners and women's business centers. The AWBC was founded in 1998 to support entrepreneurial development among women as a way to achieve self-sufficiency, to create wealth and to expand participation in community economic development through educational, training, technical assistance, mentoring, development and financing opportunities. The vision of AWBC is a world where economic justice, wealth and well-being are realized through the collective leadership and power of successful entrepreneurial women. As an organizing force of women's business centers and women business owners, the mission of the AWBC is to develop and strengthen a global network of women's business centers to advance the growth and success of women business owners. The AWBC builds the capacity of women's business centers, develops public and private resources to support member centers and the women business owners that they serve, advocates on behalf of women's business centers and women business owners and otherwise promotes women's business development nationally and internationally.

Background: Coastal Enterprises, Inc.

Coastal Enterprises, Inc. (CEI) is a private non-profit, 501(c) 3, community development corporation and community development finance institution which provides financing and technical assistance in the development of small businesses, social services and affordable housing. CEI development finance activities are targeted to promising sectors, such as manufacturing, value-added natural resource industries, women business owners, microenterprises, select social services (e.g., child care), environmental technologies and others. In addition, CEI engages in the development of affordable and special needs housing, policy research and advocacy. In addition to being a Women's Business Center under the SBA Office of Women's Business Ownership, CEI is an intermediary under the SBA Microloan Program, a licensed SBA 504 local development corporation, a sub-center under the SBA Small Business Development Center program, and a New Markets Venture Capital program.

Incorporated in 1977, CEI manages a pool of $114 million in loan funds raised from a variety of public and private sources. CEI funds have leveraged over $480 million in financing for over 1400 small businesses that have created and retained 15,000 jobs. CEI also provides business assistance and training to 1,500 aspiring and existing entrepreneurs each year. In each of its projects, CEI targets social and economic opportunities to low-income people, including welfare recipients and individuals with disabilities. CEI provides a continuum of business finance and support to customers ranging from self employed individuals with limited resources to manufacturing enterprises that employ 100 or more people.

CEI has worked with women business owners since 1980, initially in the context of farm-based enterprises and ultimately encompassing the full-range of women-owned enterprises. In 1985 CEI initiated a Women's Small Business Project to focus finance and technical assistance services to women; that was followed by a Child Care Development Project and self-employment projects targeted to AFDC recipients, refugees, unemployed and economically disadvantaged. CEI has provided $33 million in financing to 726 businesses partly or wholly owned by women and provided training and technical assistance to approximately 12,000 aspiring or existing women business owners.

History of the Women's Business Center Program

The Women's Business Center Program began as a demonstration program created by Congress in 1988 as a response to women's organizations that presented evidence to Congress that women continued to face discrimination in starting and running small businesses. A leveraged federal investment in women's economic development, the Women's Business Center Program quickly demonstrated its value and has enjoyed consistent, wide-spread, bi-partisan support from Congress. The Program has grown from four to 89 Centers that provided training to counseling and training to 106,000 people in FY2003. The women served by the Centers are diverse and include minorities, low-income, women with disabilities, and veterans. In addition, they represent women at all stages of business development, in all sectors and in different sizes from microenterprises to businesses employing more than 50.

The investment in the Women's Business Center Program has generated a significant return. In 1995, Congress appropriated $4 million for the program, and in 2003, there was an appropriation of $12.5 million, an increase of 312 percent. During that same period, however, the number of clients served increased more than 1300 percent, from 8000 in 1995 to 106,000 in 2003.

The Women's Business Center Program has changed as it has grown. The Program was initially conceived as a demonstration with three-year funding and an expectation that Centers would graduate to other funding. In 1997, the Program was made permanent and funding was extended to cover a five year period. In 1999, with the overwhelming support of Congress, the Program was changed again to incorporate a sustainability pilot program that allowed Centers to apply on a competitive basis for an additional five years of funding.

The creation of the Sustainability Pilot Program is the result of the recognition of several important points. The first is the importance of the Women's Business Centers in providing essential services to a significant and growing market of women who want to be business owners and who also want to be part of a program targeted to women. Secondly, it acknowledged the importance of the SBA's role as a funder. Not only does the SBA contribution provide an important foundation from which Centers can build, but the SBA brings credibility to the work of the Centers and its funding serves as a catalyst for raising the necessary matching funds. Finally, it acknowledges the value of the investment made in the existing Centers and the need to sustain the infrastructure so painstakingly constructed over the life of the program. The Sustainability Centers have demonstrated their capacity to deliver the program in conformance with the program's goals and purposes. That means more than just delivering technical assistance and training; it also means that they have developed the skills and expertise of their staff, that they have established solid reputations in their communities and that they have developed the relationships and partnerships needed to sustain their organizations over a long period of time. It is an investment that is worth preserving.

CEI Experience with the Women's Business Center Program

CEI was funded by the SBA's Office of Women's Business Ownership under the Women's Business Center Program in 1995 as a new center and in 2000 as a Sustainability Center. Since that time nearly 4000 women have benefited from one-one business counseling, training, workshops, seminars, peer groups, information and referral and other program activities. Ninety-two business owners have received assistance in developing loan applications resulting in more than $5.5 million in capital.

The customers for CEI's Center range from women who are contemplating starting a business to women who have been in business for over twenty years; from low-income women struggling to become economically self-sufficient to women who are interested in enhancing their profitability and creating good jobs for other women; from home-based service businesses to manufacturing operations; from traditional crafts to technology-based enterprises. One thing that brings them together is their desire to build their management skills and the importance that they place on being part of a program that is targeted to women.

CEI's approach is characterized by innovation, flexibility and interaction. Innovation has emerged by working closely with customers to develop services for existing women business owners, such as peer groups and Advisory Boards and developing services, such as training and technical assistance in uses of the Internet and E-commerce, to help women business owners remain competitive in the 21st Century. Flexibility is evidenced by a willingness to design programs specifically to meet the needs of marginal business owners clustered in rural communities or to design a three-part, nine-hour start-up training for low-income women to fill a gap in the range of business assistance services available in Maine or to provide technical assistance on-site at a business. Interaction comes from limiting the size of workshops and training sessions to maximize interaction and facilitate peer support and networking.

In sum, CEI has developed its Women's Business Center in the context of the Maine economy, building on its experience-based understanding of the needs of women business owners and the explicit need for targeted services for women business owners in Maine. In short, CEI's Center is customer-driven and provides innovative services that fill unmet needs and complement Maine's other technical assistance services.

The following profiles illustrate just a few of the ways that the Women's Business Center benefits women business owners in Maine:

> *Mary and her husband Henry own a dairy farm in rural Maine. The fifth generation of farmers in the family, they realized that they could not support themselves and their three children with dairy farming alone. They decided that diversifying their operation was their only option. Mary approached the Women's Business Center at CEI for help. Now two years later, after working one-on-one with a business counselor on planning, marketing and financial management and participating in a peer support group, Mary and her family have transformed their farm. There are new products: hormone and antibiotic free chickens, beef and veal animals, pigs and laying hens; and there are new markets: up-scale restaurants and individual consumers. The new plan has had the added benefit of involving Mary's sons and a nephew in the operation, hopefully, laying the groundwork for a transition when Mary and her husband are ready to retire. Not only is this family now fully supporting itself with the farm, but they have built a new barn and improved the dairy barn and the manure and drainage systems. In addition, the local high school vocational class built a small shed to house the retail meat operation. They are poised for continued success.*

> *Jennifer owns a small store and gas station in rural Maine. After 17 years in operation, family illness nearly drove her out of business. Cash flow problems left her with virtually no inventory and most of her vendors had stopped supplying her. Rather than take the advice of those urging her to file for bankruptcy, she approached the Women's Business Center for support. With the help of her business counselor, she prepared an excellent business plan and used it to attract investors. Two members of her community responded to her plan and invested a total of $75,000, one is just an investor; the other wants to be a working partner and eventually purchase the store. Thanks to her investors, Jennifer has paid off old debt, renegotiated with her vendors, restocked the store and drawn her*

customers back. Sales have increased dramatically, and are approaching the level they were at before the financial problems began. She narrowly avoided total financial disaster, and now has a plan for on-going recovery. She continues to work with her business counselor on her accounting system and developing the skills to assess the profitability of each department of her store. In addition, they are working on ways to structure the new infusions of capital to best meet the needs of the business and the investors.

Role of the Women's Business Center in Maine

CEI is a statewide organization and provides services to women business owners throughout the state. Maine's population is predominantly rural; less than a dozen communities have populations greater than 20,000 and the largest urban area has only 65,000 people. Maine is a poor state, with sharp regional disparities: there are pockets of poverty where rates approach 20 percent and unemployment is as high as 12 percent. Overall, the growth in the economy trails that of the nation and the region, and per capita income consistently lags behind those for the rest of the region and the country. Approximately thirty-four percent of Maine's businesses are women-owned.

Although the number of women business owners has risen steadily and dramatically for the past two decades, many women are still not taken seriously as business owners and their businesses are not valued. While business is technically no longer a non-traditional occupation for women, women business owners are still a minority and relatively inexperienced. They face significant challenges: isolation and a lack of confidence, assets, formal business training, credibility, and effective networks. Even established women business owners are not immune from these issues. The barriers that women have experienced in the labor market haunt them as business owners: lower earnings, fewer opportunities for advancement and occupational segregation.

A survey of Maine women business owners conducted by CEI in 2001 supports this assessment and points to the need for focused assistance. The median size of women-owned business in Maine was 2 employees and sales of $100,000, yet 56 percent depended on their businesses for 50 percent or more of their family income, with 24 percent depending wholly on their businesses for household income. Seventy-nine percent reported seeking business advice, and 54 percent identified areas where they would like additional assistance. The majority started their businesses with modest amounts of capital (the median was $20,000). While nearly half reported obtaining bank financing as part of their start-up capital, the percentage of those receiving bank financing declined over time. In other words, the more recently a business started, the less likely it was to receive bank financing.

For nearly two decades, CEI has provided targeted assistance to women business owners shaped by a deep understanding of the issues they face. The continuing demand for these services confirms their importance; the positive evaluations gathered from customers confirm the quality of these services. The funding from the Women's Business Center program has supported and enhanced CEI's capacity to develop its program further and to define its niche more clearly. CEI's Women's Business Center offers a unique combination of skills and experience to Maine's women business owners: a focus on women; a demonstrated understanding of the relationship between women's personal and business lives and the impact of personal issues on business decisions; innovation in program design; business expertise; and a supportive environment that fosters sound learning.

Responses to the President's FY2005 Budget request for the SBA:

In their brief history, the Women's Business Centers have become a key SBA Resource Partner. Their importance is recognized in the President's budget request where the Women's Business Centers are acknowledged as a component of the SBA's primary infrastructure, as highly effective and as having a well-developed infrastructure

The following recommendations and comments are designed to support and sustain the Women's Business Development Centers, affirming their demonstrated effectiveness as an essential source of assistance for women business owners and their role as a key element of the SBA's infrastructure.

1. Appropriations

The AWBC is requesting that funds be appropriated consistent with authorized levels: $14.5 million. This is the level of funding needed in order to meet current commitments and to continue to grow the program to meet unmet demand in areas currently not served by the program.

The Women's Business Center program has been funded at the same level for the past three years. In reality, flat funding has meant a reduction in funding for individual Centers. Quite apart from the effect of inflation and increasing costs of operation, Sustainability Centers experienced a reduction of between 12 and 19 percent in their SBA funding resulting in a reduced staff capacity and services in 2003. This was a direct result of an appropriation of $12.5 million, an amount too low to support the program.

In FY2005, under the current funding model, if the appropriation is $12 million as requested in the President's budget, the amount of the grants to Sustainability Centers will be cut in half.

2. Agency Goals for the Women's Business Center Program

The President's Budget Request includes a discussion about goals that the SBA has established for the Women's Business Center program. We are concerned about these goals for a variety of reasons.

First, many of the Centers have already experienced a reduction in funding and their resources are stretched thin. The requested amount of funding is inadequate. Nonetheless, we are expected to increase the level of services that are delivered by roughly 18 percent.

Secondly, goals are being imposed on the Women's Business Centers without any discussion with the Association or the WBC's to determine whether or not the goals are realistic or achievable. For example, the WBC's are being asked to train SBA personnel on doing business in Native American communities, to implement and evaluate pilot technical assistance programs for Native American communities, to generate articles for the Online WBC and to host the Online WBC Message Board which would be available 24/7. All this, while increasing the level of service roughly 18 percent with a smaller appropriation.

Thirdly, there is a belief that the WBC's and the other key Resource Partners will absorb the additional demand resulting from the elimination of as many as ten other SBA programs and reductions in funding for others, such as the Microloan Technical Assistance grants and PRIME. This does not take into account that the markets served by other programs are not consistent with those served by the Women's Business Centers. Nor does it take into account that the demand for services offered by the WBC's is already so high that clients have to wait from three to six weeks to get services. The WBC's are already operating at maximum capacity. It is unclear how they will be able to respond to even greater demand for their limited resources.

The Women's Business Centers are staffed by committed professionals who care deeply about providing quality services to their customers. They are as eager as the other resources partners to contribute to the SBA's overall goals and to bring these essential services to existing and emerging entrepreneurs across America. But we need to be involved in the process of setting those goals.

3. Sustainability

The SBA is currently operating under a temporary reauthorization whose authority expires on March 15, 2004. Among other things, the temporary authorization continues the Pilot Sustainability Program which is now in its fourth year and which will expire without reauthorization. The Senate has passed S 1375, and the House bill HR 2802 is still in Committee pending resolution of issues that have nothing to do with the Women's Business Center Program. Although there are significant differences between the two bills with respect to the Women's Business Center Program, both contain provisions for renewal grants beyond the initial funding period (what we have previously referred to as sustainability).

We are deeply concerned that sustainability or renewal grants have not been taken into account in the President's budget request. There are currently 33 WBC's in the Sustainability Pilot and at least another 20 WBC's will be eligible to apply this coming year. Together these two groups account for nearly two-thirds of the currently funded Women's Business Centers. These are the more experienced Centers that have demonstrated their ability to meet the Program's goal and deliver quality services. These are the well-developed infrastructure referenced in the President's budget request. These are the very programs that the SBA is relying on to achieve is very ambitious goals, and yet there is no mention made of a commitment to fund these Centers.

In previous testimony before this Committee, the SBA has expressed a preference for funding new Women's Business Centers as a strategy to encourage innovation and to ensure Women's Business Center services in currently underserved markets. The AWBC has always supported the establishment of new Centers and shares a vision of having a Women's Business Center within reasonable proximity of every woman who wants access to these services. However, we do not support the establishment of new Centers at the expense of those who have demonstrated a capacity to deliver the program.

There are just 35 Women's Business Centers in the first funding cycle. If our concerns are realized and the Sustainability Centers are not funded, then the SBA will be in position to solicit applications for roughly 46 new Centers. It is difficult to imagine the SBA meeting its goals with more than half of the organizations new to the program and without the guiding support and mentorship of the Sustainability Centers who have generously shared their best practices and lessons learned with their less experienced peers in the past.

It is important that we reinvest in what has been built and continue to strengthen what has already been tested and proven to be effective.

Chair SNOWE. Thank you, Ms. Golden.

I will start with you on the question regarding the funding. Obviously, it is a decrease from last year and it is flat funding over the last 5 years, so obviously, it does represent a hardship.

What appropriation do you think would be sufficient?

Ms. GOLDEN. If we want to increase the size of the program, and I know that this is a concern that has been brought before this Committee in the past, and I know that there are parts of the country that are not currently served by Women's Business Centers, if we want to maintain current capacity as well as increasing it, then the $14.5 million, which is the current authorized amount, would cover all of that.

Chair SNOWE. And you feel in the Administration's request on sustainability centers, that is one of the crucial issues that is overlooked, obviously. And adding new ones and not obviously providing a sufficient amount for those that exist.

Ms. GOLDEN. I think you will recall that at the roundtable on entrepreneurial development programs that you held last spring, the SBA at that particular hearing offered testimony that indicated that they had a clear preference for opening new centers over funding the current sustainability centers.

As I said earlier, and I made the point last spring, those are the heart of the program. Those are the centers that have demonstrated their capacity to deliver the programs effectively and efficiently. So it does not make sense to us to cut those programs out.

Chair SNOWE. There should be some kind of balance, obviously, we need to create in this whole program. Insufficient funding it makes it even harder. But for those who have existed and have a proven track record, it clearly make sense to ensure that they are supported.

So we will have to look at that particular issue, in addition to the other issues concerning the technical assistance that are going to be part of your program is the Native American program. I know that you have commented on that as well.

Ms. GOLDEN. It is not that we would be opposed to taking on responsibility for additional tasks or activities, but we would like to be compensated for it. I think the point is that at the current level of funding we cannot assume additional responsibilities.

Chair SNOWE. Ms. Mathews, you heard the Administrator respond to Senator Pryor's comments regarding the Microloan program. Could you address those, in terms of how you think it would not work with respect to zeroing out the amount and having the other programs compensate for it? Are you saying essentially that the loans are too small, take too much time, obviously greater cost would be required in order to process those type of loans?

Ms. MATHEWS. Yes.

Chair SNOWE. All of the above?

Ms. MATHEWS. All of the above.

Chair SNOWE. And the other programs would not be adequate to compensate, because they are too small and take too much time?

Ms. MATHEWS. There is the question of credit quality. A bank does not do a 561 credit score loan. They do not do that level of loans. But yet we are producing strong growing businesses from these targeted customers.

The loans are small. The SBA Express Program in Minnesota in 2003 made six loans under $10,000. This year to date it has made one loan under $10,000. So they are making $10,000 to $35,000 loans.

Our average loan size last year was $9,000. We made a number of loans at the $1,000 level. Those loans will not be made because of credit quality and borrower capacity, because of the size, and because banks do not have the capacity or the resources to provide any kind of technical assistance to be tied to the loan.

Chair SNOWE. And every dollar spent, do you agree with that calculation by the SBA with respect to every dollar spent costs 97 cents to process the Microloan?

Ms. MATHEWS. I do not know the context in which that number is created. I suspect that that number also includes the cost of training and technical assistance as part of the Microloan program.

The major cost of the Microloan program is actually the entrepreneur development process, yet it is included in the SBA's credit budget. So we are not sure what is included in the number. There is no other loan program in the SBA that has all of the associated costs for technical assistance loaded in to the cost of the loan. So there is great comparison of apples and oranges.

I have another example of how numbers are used out of context. In our region, for example, the small business development center serves 800 people a year. We serve 800 people a year. In reports, they are given credit for serving 800 clients. We made 29 loans. So their 800 clients are compared to our 29 loans. There is no comparison of the work that we have done in the process to determine efficiency and effectiveness.

So there is a number of ways in which the calculation does not tell the whole story.

Chair SNOWE. I appreciate that.

Mr. Coit, I understand my staff tells me you mentioned Diamond Phoenix and my home town area, as a successful SBIC investment.

As you know, I know you testified on your issue and I wish I had heard your testimony as well, about the restructuring proposed by the SBA. I would like to have you comment on that.

What concerns specifically do you have with the SBA's SBIC proposal? Do you think it is unrealistic, the fact that obviously they would restructure with providing the SBA a higher percent of the profits?

I have had a chart made to compare the proposal of your association to that of the SBA and there are some fundamental differences in terms of what currently is allowed and compared to what the SBA is proposing.

What concerns do you have specifically and primarily? And secondly, your proposal, why do you think it would be preferable? Keeping in mind the interest of the taxpayers, as well, because we have public accountability with respect to these issues. And obviously, it is a riskier proposition.

And so therefore, I would be interested in your comments as to why you think your proposal, the association's proposal, would be better, the National Association of Small Business Investment Companies.

Mr. COIT. Thank you.

We actually, before putting this proposal forward, spent a lot of time with our industry, both the managers and members of NASBIC to understand their preferences for this. But very importantly, also spent time with the institutional investor community, including a group called the Small Business Investment Alliance which represents some of the major banks that support the program, to make sure that whatever we proposed worked for them.

Of course, it has to work for the taxpayer and it has to work for the small business community, as well.

Obviously, the taxpayer has a difficult time in the program over the last 3 years. Anybody in venture capital has had a very difficult time. Until 3 years ago, the industry as a whole never actually lost money in any single year and it has now had 3 years in a row where there have been substantial losses. So the Participating Securities Program, which started 10 years ago and grew substantially during the late 1990s, was unfortunately and uniquely positioned to participate in the very significant decline in our industry.

One of the things we did do was to try to understand the taxpayer's position if the program had been structured the way we are proposing over the last 10 years. The actual losses to the taxpayer, we understand SBA has also looked at these numbers—would have been substantially less, maybe even zero. So we think our proposal actually protects the taxpayer by increasing their profit share in the program without really diminishing the risk all that much. We think the trade-off for the taxpayer is actually substantially better.

For small businesses, what this is going to do is to actually attract more institutional investor capital and sophisticated capital to the program. As I said, the SBIA group has endorsed this approach.

I did talk while you were out about the Maine State Retirement System, which we approached for our first—actually for both of the two SBICs we formed. In the first instance they had actually approved an investment in our SBIC. They had gone to Ennis Knupp, which is their advisor in Chicago. And they had approved it, in terms of our quality as an investor.

Then the director of the Maine State Retirement System took the next step, which was actually to look at what the SBIC regulations were about, and then went back to the board and said we should not do this as a fiduciary.

The point is that by restructuring the program and making it more simple, more money both from the banking community which has traditionally supported the industry, but also particularly from public pension funds which have a regional interest in making investments in local venture capital funds, that this would open up substantial amounts of additional and sophisticated capital to the program.

That sophisticated capital will also be a screen for more sophisticated managers. So the quality of the program from the point of view of the institutional investor supporting the program and the managers who will be attracted to the program will be improved. If the taxpayer is going to have a higher percentage of profits, the taxpayer should also do better.

For the small businesses, this just means there is going to be more money in the program. It is going to be more competitive. It will lower the cost and create more availability to small businesses.

Chair SNOWE. I appreciate it and obviously this is an issue that we will have to explore, the Association's proposal as well as the Administration's. Obviously, we do not want to make it less attractive to investors or make it unfeasible.

At the same time, I realize the last 3 years hopefully were an exception to the rule and not the norm, which has obviously contributed to the problems of the SBIC and venture capital in general.

Mr. Wilkinson, I know Senator Pryor wants to ask a question, but just on the 7(a), as I said earlier, I do plan to convene a roundtable to have a more in-depth discussion of the fundamental changes to the program and making it zero subsidy rate and changing the guarantees, prohibiting the piggybacks and so on. So I am certainly going to want to have your input.

What is your greatest concern about this approach?

Mr. WILKINSON. Well, the greatest concern today is the number of borrowers who had their applications in on time and had the rug pulled out from underneath them. We have got three applicants sitting in the audience today who testified yesterday on the House side about the financial damage their small businesses have incurred.

This is a problem that the SBA can resolve today. The applications were in on time and they can process them if they so chose to.

By not doing so, they are, for whatever reason, making these applicants pay a punitive price. And it is just, in our opinion, a mean-spirited attempt by the SBA to reduce loan volume. These applications and the others like them across the country should not be ones paying the price for the way the funding situation was managed.

Chair SNOWE. I would agree with that. I think it does breach a trust——

Mr. WILKINSON. It does.

Chair SNOWE. In the agency and in the program itself.

Mr. WILKINSON. And circumvented the 15-day notice requirement in the Small Business Act.

Chair SNOWE. I agree, on three different occasions, I mentioned earlier. But the fact is people obviously applied based on the rules and the law.

Mr. WILKINSON. Correct.

Chair SNOWE. So I regret that and we will continue to work with the Agency on this particular issue. There is no reason to keep in place a cap at this point.

Mr. WILKINSON. Thank you.

Chair SNOWE. I can assure you that we will continue to work on that matter, because I agree with you totally. I just think it is a huge problem for anybody who anticipated irrespective and—as I recall we had the roundtable here and it was you who expressed the thought that we need to have a much higher level of authorization, irrespective of the previous year. Every year it is going to get larger. The demand is going to be greater, irrespective of the fact that is includes the STAR loans or whatever.

All of the testimony submitted to this Committee, other than the SBA's, was the fact that it would be a much higher level than requested by the Agency. That is what is so regrettable about it.

Mr. WILKINSON. The agency's 2004 budget request made the assumption that small business loan demand was going to go away simply because a program expired and that simply was not the case, is not the case, and there is substantial demand from the small business sector looking for long-term capital and that is what the SBA should be providing.

Chair SNOWE. So what you are telling me is that first and foremost we should rectify the problem with respect to this cap so that those who have submitted their applications can be helped.

Mr. WILKINSON. Absolutely. They have not been treated fairly or equitably. It is embarrassing.

Chair SNOWE. Senator Pryor.

Senator PRYOR. Thank you.

This is a very experienced panel with a lot of background and years of understanding how the SBA works and how it should work and the things that are going right and going wrong at that Agency.

I would like to ask, if I may, at the risk of sounding like a public opinion poll, I would like to ask each of you if you think the trends and the developments at the SBA today, in your opinion if the SBA is going in the right direction or the wrong direction? And why?

I know that is kind of a vague question, but if you do not mind, Mr. Wilkinson, I will let you start.

Mr. WILKINSON. I would be happy to start on that one. The actions taken in the 7(a) program, in my opinion, have been intended to not only limit the background of the 7(a) program, but to shrink it. It is our belief that there are those in the Office of Management and Budget that do not believe that the Federal Government should be in the credit program.

We disagreed. There is a sizable gap for long-term credit for small business and that is exactly what this program does. This program is not broken. It does not need to be overhauled. It just needs to be supported. And the direction that we are going, I do not believe, is the correct one.

Senator PRYOR. Mr. Coit.

Mr. COIT. There are parts of the SBIC program that work very well. The debenture program has been around for 45 years. It has been well vetted. There have been changes made to it. More and more the changes are minor. Our industry is very happy with the way it is operated by SBA. The debenture program is working. It is not broken.

The Participating Securities Program is broken and that is why we have put forth our proposal.

I will say that I think the relationship with SBA is constructive. This process, we will see where we come out in the end, but right now we seem to have a good dialogue. So I do not think the relationship is broken, but the program is clearly structurally broken.

I do have one other concern and that has to do with cuts. There is an important part of the process of oversight that SBA has and that is the examination process. My understanding is that the SBA is actually going to outsource the examination process.

This was tried on an experimental basis I think 6 years ago and it was a dismal failure. It actually created more costs. It was very disruptive to the licensees. My understanding also is that the current examination function actually breaks even or makes a small profit for SBA. In other words, the fees that are charged to licensees for the exam actually cover the cost to SBA.

So the idea of outsourcing this as a way to reduce SBA's budget is really not going to improve SBA's bottom line, but it is going to dramatically, I think, decrease SBA's ability to do functionally accurate oversight and it is going to put a big burden on our industry.

Senator PRYOR. Ms. Mathews.

Ms. MATHEWS. Obviously, since the Administration is proposing to terminate the largest single funding source for my organization it is hard for me to think about that being a positive direction.

When you were out of the room, Senator, I described how we reach deeper into the economy than what the SBA loan guarantee programs do. There is nothing about the proposed changes that, other than a reduction in paperwork, that are going to reach deeper into the market that we serve.

The SBA has made some remarkable improvements in the efficiency of the loan guarantee programs and their ability to serve larger numbers. We have worked with the SBA over the years and had some good results in creating efficiencies in the Microloan program, but there are many, many more efficiencies that could be created.

Secretary Barreto made the comment that the economy has changed in the last 12 years and that the environment has changed. The Microloan program, in many respects, is still operating in the 12-year-old environment. We have a system of 185 organizations that do this kind of work. If we put our minds to it we could create greater scale and we could create greater efficiencies.

Will it outpace the 7(a) program? No, because the 7(a) program makes the case that capital is the primary issue. The Microloan program makes the case that capital is only necessary once the business owner is prepared. Capital is tied to entrepreneur training and technical assistance. That is what makes the program successful. If you separate those two, if you separate entrepreneurial development from Microloans, the program will not be successful and it will not have the kinds of results that intermediaries are providing today.

While it is not large, it was pretty important to 2,442 people in the United States last year. It made a difference in their lives. And that will not happen if those programs are gone.

Senator PRYOR. Ms. Golden.

Ms. GOLDEN. Thank you.

Obviously, the Women's Business Centers are pleased to be included as part of the key infrastructure. But we have been disappointed with the levels of funding requested by this Administration for the past 3 years.

As I mentioned earlier, just an additional $2.5 million would enable this program to be fully funded and allow it to be expanded into areas that are currently not covered. It seems like a rather modest amount, given the return to local communities and economies in terms of new businesses created and jobs and income tax revenue developed through the work of the Women's Business Centers.

The apparent lack of support for sustainability, for those most experienced centers with a proven track record, is something that we think is a wrong direction. So again, that is a disappointment. It feels like that is weakening rather than strengthening the program.

Then the last point is that the Association maintains fairly constant communication with the Office of Women's Business Ownership and we do have a good relationship. But we find it very difficult that goals are imposed on us without our being asked whether or not they are realistic and doable.

We are happy to work with the SBA to see how the Women's Business Centers can help them achieve what they want, but we want to be participants in that dialogue, and not be just have goals handed to us, particularly without additional resources.

Senator PRYOR. I would like to thank all of you for your candor on those answers. I think those were very insightful.

Mr. Wilkinson, a few moments ago the Administrator said the Agency could not have predicted the loan volume to avoid shutting down the lending to small businesses. I would like to hear your thoughts on that. Could they have predicted that?

Mr. WILKINSON. Yes, Senator, the testimony that we gave last year in February we anticipated a loan demand this year of $12.5 billion. If you go to SBA's very own website, they will tell you that in fiscal year 2003 they did $11.3 billion and they had a loan cap of $500,000 in place for the first 5 months. So obviously, loan volume would have been higher than the $11.3 billion.

In addition, the last several months of fiscal year 2003, loan volume was approximating $1 billion a month. October we did $1 billion for the month. November, we did $1 billion a month. So they had known for quite some time what loan volume was trending.

Senator PRYOR. That is my impression as well.

Ms. Mathews, let me ask you about rural economic development which is something that is near and dear to my heart since I come from a rural State. It is very, very important to my State. My sense, my impression, having talked to a lot of business owners around the State, is that the SBA programs, especially the Microloan program, is really an important element in strengthening rural America's economy. Would you agree with that? And what is your experience in helping businesses out in rural America?

Ms. MATHEWS. Thank you, Senator.

90 percent of the SBA Microloans in Minnesota are done in rural Minnesota. They are not done in urban Minnesota. In the region that I live nearly 20 percent of the workforce is engaged either in self-employment or works in a business with four or fewer employees. Those are micro businesses. That is a huge percentage. In some of the counties in which we serve, the percentage is as high as 30 percent.

The services that we provide are critical to help people create a job wherever they want to live. And there are all kinds of businesses. It is everything from hairdressers and auto repair to—we are working on a project with our community colleges to help train technology workers and build technology businesses in rural Minnesota, jobs where people want to live and are living. This is where it is going to happen.

Senator PRYOR. That is, at least in my view, one of the purposes of the SBA is to reach out in rural communities because, as you well know given your background and experience, in many, many instances these rural communities do not have access to capital. Maybe they could go to the bigger cities and go to the larger banks and try to get loans, but it is not a very appealing environment for a lot of these banks. They do not want to go out in the rural parts of various States to try to loan that money.

So my sense is the SBA plays a very, very important role in keeping the economies going across rural America.

I do not want to talk too much about the Microloan program, I focused on that with the Administrator, but I know that one of the great benefits of that that we have already touched on is the Microloan program helps folks in rural America. It helps women, minorities, it helps first-time businesspeople. It just seems to me that it is a program that if done correctly can be a very, very smart use of tax dollars to get out there and target weaker sectors of our economy and strengthen those sectors with hopefully using good business practices and being able to get a big return on taxpayer investment out there in these communities.

One thing I was going to ask you, Ms. Mathews, is that it seems to me unfair to compare the 7(a)'s Express program to the Microloan and Microloan technical assistance program when this Administration really has not funded the Microloan and Microloan assistance programs like it should have. And then to try to compare those. That seems inherently unfair to me. Do you have any comments on that?

Ms. MATHEWS. Like the Women's Business Centers, the SBA Microloan program has been either flat-funded or has seen decreased funding over the last few years. It is spread in each year among more and more programs. So our funding has declined, yet the numbers of Microloans has actually increased. So there is greater efficiency every year.

It will take more money to improve and to build the program.

Senator PRYOR. One last thing, I was out during your testimony, but I believe you gave a statistic about the average Microloan?

Ms. MATHEWS. Our average Microloan, across the Microloan program it is about $11,000. Our organization's is about $9,000.

Senator PRYOR. And I know Mr. Barreto a few moments ago said that the SBA Express average, I believe he said $47,000. He was citing a lot of statistics and every time we would ask questions he would always bombard us with statistics. But it seemed to me that we need to differentiate these programs and the purposes of these programs. Not all small loans are the same. There is a differentiation within that definition of a small loan.

Madame Chair, that is all I have right now.

Chair SNOWE. Thank you, Senator Pryor, and I appreciate all the panel's work and testimony. Obviously, we are going to be following up with each and every one of you.

Before I adjourn, just one general question. In all the proposals in the respective areas in which you have testified here today, what would you support, if anything, do you support? Is there anything?

I am turning it around, I know.

Mr. WILKINSON. I will start here. We have not seen a proposal. We were not consulted about putting a proposal together.

Chair SNOWE. We have not either.

Mr. WILKINSON. So I do not even know what I would be commenting on.

Chair SNOWE. Except obviously we get the framework, but we have seen the specifics of the 7(a) proposal.

Mr. WILKINSON. That is correct.

Chair SNOWE. I agree, that we have not.

Mr. Coit.

Mr. COIT. With respect to the Participating Securities Program, we have our competing proposal, so we actually do not support the Administration's proposal.

Chair SNOWE. Ms. Mathews on the Microloan or PRIME.

Ms. MATHEWS. We do not support the proposals to terminate the Microloan program. We are actually very concerned about what happens to those existing borrowers and that existing portfolio. The PRIME program is targeted at very low income individuals, so it too has a specific focus and is zero funded. So we do not support the proposal.

Chair SNOWE. Ms. Golden.

Ms. GOLDEN. I do support the Administration's endorsement of the Women's Business Center program as a key component of the SBA's primary infrastructure, but we do not support the way that they are proposing to support us.

Chair SNOWE. And merging technical assistance into the program, as well? That is something I gather they did not work with you on?

Ms. GOLDEN. No, they never consulted us with that and I think that it is an unrealistic expectation. There is a finite resource. As I said, the Women's Business Centers are already swamped in terms of demand for services. If you were to expect us to take on these additional responsibilities, it would simply displace current customers. It does not really add any capacity.

In terms of expecting us to take on the Microloan technical assistance grant, I think it is unrealistic, because the programs have two very different purposes. The charge, the responsibility for the Women's Business Center program is much broader. The majority of our clients are not coming to us because they want help with access to capital. They are coming because they have management issues. There is a whole range of things they needed. They are looking for help around e-commerce or how to use the Internet, or any one of a number of things that do not really relate to the purposes of the technical assistance component of the Microloan program.

The same would be true for PRIME which, as you know, is targeted to extremely low income individuals. It is also not targeted specifically to women, nor is the Microloan program.

While the Women's Business Centers do work with low income individuals, that is not our sole responsibility. We are charged with working with a range of women business owners. So again, it is not really a good fit.

I know that there are other programs that are also slated for elimination or reduction and again I do not think it is necessarily realistic to expect us to take on responsibility for those, as well.

Chair SNOWE. And you have identified that the level of assistance that Women's Business Centers would be required to provide would be 18 percent without the commensurate support or funding?

Ms. GOLDEN. Right, we served 106,000 women this past year in 2003. The goal for 2005 is 130,000 with a reduction of funding. It is unclear to me how they expect us to be able to do that. I think we have already demonstrated increased efficiency in our ability to serve more and more women every year, but at some point there is just a limit to that.

Chair SNOWE. I appreciate your testimony and your views representing your respective programs and constituencies and that certainly will be helpful as we begin to shape and respond and explore and examine all of the programs and the programmatic changes submitted to this Committee in the proposed budget for the next fiscal year.

So I truly appreciate it and we will be following up with each of you and other members of your organizations as we try to develop a response. And obviously, it is going to be contingent upon getting more specifics on these proposals as well.

But I really appreciate it and we are going to do everything we can to ensure that the SBA and its resources are targeted efficiently and effectively to the people it is intended to serve. So I truly appreciate your being here today.

The record for this hearing will remain open for an additional 2 weeks until noon on March 3rd. Certainly any written questions for Administrator Barreto must be sent to the Committee by noon on March 3rd and we will forward them to the Administrator at that time with a request for response by April 1st.

So again I thank all of you for joining us here this morning and for being so responsive.

With that, the hearing is adjourned

[Whereupon, at 12:00 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement of Senator Mark Pryor
U.S. Senate Committee on Small Busniess and Entreprenuership
Hearing on the President's FY2005 Budget Request for the
Small Business Administration

Thank you Madam Chair. I want to thank Senator Snowe, as Chair of the Small Busniess Committee, for the leadership and commitment she has demonstrated in working to assist small business in this country. I also want to thank her for the bipartisan tone she has sought to create within this Committee. I want to acknowledge Ranking Member Senator John Kerry as well for his hard work and dedication to the very important work of this Committee.

Good Morning, Administrator Barreto. Thank you for being with us this morning to discuss the President's budget request for the Small Business Administration.

I have to say that I am troubled by what I have seen in this budget. I am very concerned about the impact that program decisions in this budget will have on my state and on the entire country. The budget does not fund the 7(a) Guaranteed Loan Program, it eliminates the Micro-Enterprise Programs, and it cuts both the Women's Business Center Programs and the Small Business Development Centers (SBDCs). As I am sure you know, a number of universities in Arkansas have SBDCs which serve hundreds of people in our communities annually.

We all know the important role that small business plays in job creation and economic growth in our country. At a time when our economy is facing chronic unemployment figures and a loss of jobs in the manufacturing sector, it is disconcerting to me and my constituents, who are quite vocal about what is going on at the SBA, that it appears this budget fails to meet the challenges we face.

I look forward to hearing the testimony today and hope that it will address and alleviate the concerns I have about our ability to provide meaningful and timely assistance to the many hard working men and women who comprise our nation's small business sector.

Thank you, Madam Chair.

POST HEARING QUESTIONS

Committee on Small Business and Entrepreneurship
Post Hearing Questions
to
The Honorable Hector V. Barreto, Administrator,
U.S. Small Business Administration
"The President's FY 2005 Budget Request for the SBA"
February 12, 2004

Questions Submitted by Senator Olympia Snowe, Chair

1. What would the subsidy rate for (a) the remainder of FY2004 and (b) FY2005, if fee remain at FY2004 levels, if all loans were at 60 percent guarantee, with a maximum loan size of $2 million, and with piggyback loans?

(a) The subsidy rate would be 0.85
(b) The subsidy rate would be 0.77

2. If the SBA were to (a) require that all loans equal to or less than $250,000 be Express loans, but (b) allow loans from $250,000 to $2 million to have either 50 or 75 percent guarantees, and were to allow piggyback loans, what would be the subsidy rate for loans equal to or less than $250,000, and for loans larger than $250,000? Please provide four different numbers: the subsidy rate for (a) and (b) under both the FY2004 and FY2005 fee levels.

Absent the addition of piggybacks, this scenario is essentially the same as SBA's proposal. The subsidy rates would be 0.02 for Express loans and 0.74 for non-Express loans, or a blended rate of 0.48 for loans in FY04 under the FY04 fee structure. For FY05, the subsidy rate would be zero.

3. (a) How does the SBA's proposal effect the three international trade loan programs? (b) How does the SBA plan to market its proposal to small businesses that engage in international trade or are seeking to engage in international trade? (c) How would a mandatory 50 percent guarantee effect small businesses that are seeking a loan to assist their business in international trade?

We think that the proposal will have a positive impact on the international trade loans. Based on the large number of SBA Express loans that are lines of credit, we believe that lenders will make EWCP loans in a similar manner. The 50 percent guarantee proposal will allow lenders to make more loans because the lenders' cost of making a loan is reduced.

4. For both FY 2004 and FY 2005, what are the SBA's estimates for default rates and

recoveries for (a) SBA Express loans, (b) General, 7(a) loans, (c) Community Express loans, and (d) Low-Doc loans?

	FY 2004		FY 2005	
Loans	Default %	Recovery %	Default %	Recovery %
(a) Express	3.64	-51.91	4.84	-52.67
(b) General	11.02	-51.92	10.73	-52.67
(c) Community Express	8.92	-51.92	9.11	-52.67
(d) Low-Doc	11.44	-51.91	10.57	-52.67

- **"Default %" is defined as (total SBA cash outflow for purchase/total SBA guaranteed portion of disbursements), i.e. "default" is influenced by guarantee percentage.**
- **"Recovery %" is defined as (total SBA cash inflow from recovery/total SBA cash outflow for purchase)**
- **Fees are baseline for both FY04 and FY05.**
- **"General" category is not exclusive of Low-Doc loans.**

5. What parameters for piggyback loans has the SBA considered in the past?

SBA continually assesses its policies and procedures to look for improvements in its programs, and has considered a variety of different ideas on all of its loan programs.

6. (a) How does the SBA determine the number of jobs created by 7(a) loans, and the number of jobs retained by 7 (a) loans? (b) Does the SBA calculate the number of jobs created by loans of different sizes? (c) If so, does the SBA tabulate the characteristics, such as salary and type of skill-level required, of the jobs created by the different size loans?

SBA determines the number of jobs created or retained by 7(a) loans by dividing the total number of dollars lent by about $32,000 for projecting purposes. Once the fiscal year is over, we calculate actual jobs created and retained, as submitted on the loan applications. There is no differentiation between loan size or type of job.

7. Does the SBA think that its proposal for the 7(a) program will allow fees to be reduced from FY2004 levels, or to stay at FY 2004 levels? If so, why not put a fee "cap" in the statute to provide confidence that fees won't exceed a certain level?

We think that SBA's legislative proposal will result in a long-term reduction in fees. A fee "cap" in statute would be acceptable, provided it was high enough to ensure flexibility

without needing legislative changes every year.

8. What percentage of current 7(a) borrowers does the SBA estimate would be prevented from getting 7(a) loans if the guarantee is only 50 percent?

If the 50% guaranty is the only credit enhancement available for small business loans, we believe most lenders will continue to use the SBA guaranty as they currently do.

9. Why does the SBA's proposed legislative language eliminate the provision that requires 15 day notice to Congress for major changes to the program?

The SBA's proposal allows for maximum flexibility to manage the loan program. This provision limits the Agency's flexibility.

10. Why does the SBA's 7(a) proposal remove the limit on pilot programs?

The SBA's proposal allows for maximum flexibility to manage the loan program. This provision limits the Agency's flexibility.

11. The SBA has referred to a 21 basis point drop in the subsidy rate for FY2005 (from FY2004) that would occur because of a change in the "loan mix" of 7(a) loans. Can that change be reflected immediately, in FY2004, and if not, why not? Wouldn't reflecting this change now have the benefit of allowing lending to continue through FY2004 with less restrictions?

The drop in the subsidy due to the change in loan mix assumes small loans are required to be made through the Express program. That change can only be reflected immediately if there is a permanent change in legislation that would allow for a recalculation of the subsidy rate.

12. Of the 20 highest volume SBA Express lenders, what number of loans, and what dollar volume, did they each make in Express loans in FY2003?

The top 25 SBAExpress lenders produced 29,085 Express loans for 88% of the total Express loans. SBAExpress loans represent 77% of these lenders' total SBA 7(a) loan portfolio. The average SBAExpress loan size is $40,145.

13. For the FY2005 budget request, what dollar volume did the SBA use as estimates (for insertion into the econometric model) for 7(a) loans in FY2005 that would be (a) $250,000 or under, (b) greater than $250,000 but less than or equal to $750,000, and (c) greater than $750,000?

82% of all SBA loans are under $250,000, 50% of all SBA loans are Express, 5% of all SBA loans are over $750,000. SBA assumes this trend will continue and estimated as such in the

budget process.

14. The SBA has indicated that the sunset of the current reduced fees, that will sunset at the end of FY2004 if current law remains unchanged, will reduce the subsidy rate by approximately 95 basis point drop is attributable to the increase in the 25 basis point lender fee?

The drop is equally due to both fee increases (borrower and lender).

15. How many rural and community banks use the SBA's Express program? What percentage of loans are made by these banks?

775 lenders have signed up for participation in the SBAExpress loan program, including 546 within the last year and a half. 433 lenders made more than 33,000 SBAExpress loans in FY03. 75% of SBAExpress lenders are considered small by industry standards.

16. Explain why the SBA is prohibiting piggyback loans during the current 7(a) loan cap, when the agency has never prohibited them during any other loan caps?

Given the funding constraints faced by the Agency, the cap needed to be strictly enforced as a method to control demand. Additionally, the Inspector General has raised policy concerns about the structure of piggyback loans, and placing the SBA in the second position. The true cost of piggyback loans is not accounted for in our current structure. The enactment of H.R. 4062, of course, changes the picture.

17. Please provide the Committee with the estimated number and amount of piggyback loans the SBA has made each year over the last three years.

Based on estimates provided to SBA by several lenders, we can assume that piggybacks comprise about $1 billion worth of lending volume each year.

18. Please provide the Committee with the subsidy rate for your proposal that takes into account the demand for piggyback loans (using two estimates for piggyback loans (a) $1 billion, (b) $2 billion).

Per HR 4062, the fee of 0.7 for piggybacks is sufficient to make those loans cost neutral.

19. Please provide the breakdown for 7(a) Express loans for FY2002, FY2003 and FY2004:

a. Number and dollar amount of loans $10,000 and below
SBA starts tracking loans at $25,000
b. Number and dollar amount of loans $11,000 - $25,000
(Loans & dollar amount below $25,000)
FY 02 – 6,652 loans for $100 million

FY 03 – 15,239 loa ns $220 million
FY 04 – 6,314 loans for $100 million
c. Number and dollar amount of loans $26,000 - $50,000
(Loans & dollar amount from $25,001 - $50,000)
FY 02 – 5,954 loans for $246 million
FY 03 – 11,161 loa ns for $463 million
FY 04 – 5,685 loans for $245 million
d. Number and dollar amount of loans $51,000 - $75,000
(Loans & dollar amount from $50,001 - $75,000)
FY 02 – 1,389 loans for $92 million
FY 03 – 1,815 loans for $119 million
FY 04 – 1,170 loans for $80 million
e. Number and dollar amount of loans $76,000 - $100,000
(Loans & dollar amount from $75,001 - $100,000)
FY 02 – 2,071 loans for $198 million
FY 03 – 2,420 loans for $230 million
FY 04 – 1,082 loans for $103 million
f. Number and dollar amount of loans $101,000 - $125,000
(Loans & dollar amount from $100,001 - $125,000)
FY 02 – 333 loans for $38 million
FY 03 – 478 loans for $55 million
FY 04 – 212 loans for $24 million
g. Number and dollar amount of loans $126,000 - $150,000
(Loans & dollar amount from $125,001 - $150,000)
FY 02 – 916 loans for $134 million
FY 03 – 980 loans for $143 million
FY 04 – 473 loans for $68 million
h. Number and dollar amount of loans $151,000 - $175,000
(Loans & dollar amount from $150,001-$175,000)
FY 02 – 26 loans for $4 million
FY 03 – 153 loans for $25 million
FY 04 – 98 loans for $16 mill ion
i. Number and dollar amount of loans $176,000 - $200,000
(Loans & dollar amount from $175,001 - $200,000)
FY 02 – 49 loans for $9 million
FY 03 – 342 loans for $67 million
FY 04 – 195 loans for $37 million
j. Number and dollar amount of loans $210,000 - $225,000
(Loans & dollar amount from $200,001 - $225,000)
FY 02 – 12 loans for $2 million
FY 03 – 113 loans for $24 million
FY 04 – 61 loans for $13 mill ion
k. Number and dollar amount of loans $226,000 - $250,000
(Loans & dollar amount from $225,001 - $250,000)
FY 02 – 93 loans for $23 mill ion
FY 03 – 506 loans for $125 million

FY 04 – 274 loans for $68 million

As you know, SBAExpress loans have a limit of $250,000

l. Number and dollar amount of loans $250,000 - $300,000
m. Number and dollar amount of loans $301,000 - $350,000
n. Number and dollar amount of loans $351,000 - $400,000
o. Number and dollar amount of loans $401,000 - $450,000
p. Number and dollar amount of loans $451,000 - $500,000
q. Number and dollar amount of loans $501,000 - $750,000
r. Number and dollar amount of loans $751,000 - $1 million
s. Number and dollar amount of loans $1 million - $1.25 million
t. Number and dollar amount of loans $1.26 million - $1.5 million
u. Number and dollar amount of loans $1.51 million - $1.75 million
v. Number and dollar amount of loans $1.76 million - $2 million

20. What percentage of loans that were made in the Microloan program in FY2003 does the SBA estimate will be able to be made in other SBA loan programs? What percentage of those Microloans does the SBA estimate will be able to be made in other non-SBA programs?

SBA believes that most, if not all, of the approximately 2,400 loans made annually under the Agency's Microloan program could be made under other SBA loan programs. We also note the tremendous expansion in the number of Microenterprise organizations that has taken place over the last 10 years. According to Aspen Institute estimates, over 600 microenterprise development organizations are operating in the United States. About 200 of these institutions provide microlending unrelated to SBA's programs, and this non-SBA microlending is estimated to comprise over 65 percent of all microlending presently available. SBA thus believes that most, if not all, of the Microloans approved by the SBA could be made through non-SBA microlending organizations.

21. What efforts has the SBA made to work with Microloan lenders to reduce costs in the program, rather than eliminating the program?

Since 1997, SBA has taken a number of steps to improve the efficiency and reduce the costs of the Microloan program, including:

- **Reducing the application process for supplemental loan funds from a 13 point proposal process to a simple letter of request.**
- **Replacing a paper-based reporting system with a far more effective and efficient electronic system that has also enhanced program monitoring and oversight.**
- **A major restructuring of Microloan grant awards from a loan-by-loan system to a participant-by-participant system, which substantially reduced grant related paperwork and procedures.**

- **Restructuring the management of bank accounts to reduce fund management responsibilities for intermediaries and oversight responsibilities for SBA.**
- **Encouraging community based partnerships with SBDCs and SCORE chapters to reduce the cost of providing pre-loan technical assistance to potential microborrowers.**
- **Introducing performance incentives for intermediaries to encourage greater loan production.**

22. The Federal Reserve Board Chair, Alan Greenspan indicated that the economy was turning the corner. However, while the unemployment rate is dropping, job increases are less than expected. And, the manufacturing sector continues to suffer job losses. Since July 2000, this Nation has lost more than 2.8 million in manufacturing jobs. Many of these jobs are being traded overseas.

While outsourcing may provide firms with competitive advantage, it is not done without costs. The most real and visible costs are lost jobs by the displacement of workers.

As American businesses outsource their jobs overseas to stay competitive, we see a ripple effect on suppliers to these firms and other small businesses.

I am also concerned that Federal dollars may be going to companies that send jobs overseas. Are there any programs within the SBA that are, in effect, rewarding or benefiting companies that outsource their jobs overseas?

SBA does not have programs that "reward" companies that outsource jobs to other countries. The Agency remains committed to building American small businesses, and fostering the spirit of entrepreneurship that has made our country great. Indeed, SBA loans are available only for the domestic operations of businesses, and cannot be used for operations in another country. (See, SOP 50 10 4 E, Subpart A, Chapter 2, Para. 1.e.) Further, the 504 loan program operates to create jobs as a specific statutory purpose, and those jobs are in this country.

23. What policies or programs, if any, does the agency have in place to ease the transition or help reverse this trend of job outsourcing?

The Agency's HUBZone Program targets procurement preferences toward firms located in, and employing residents of, distressed American communities. The purpose of the program is to promote job growth and economic development in 'historically underutilized business zones'- HUBZones. These areas are urban and rural American communities characterized by chronic high unemployment and/or low household income, or designated as Indian Lands. Federal agencies have an annual goal of awarding 3% of the agencies' contracts to HUBZone-certified firms.

Through award of such contracts, funds flow to distressed communities, promoting job growth, capital formation, and economic development.

The HUBZone Program certifies approximately 2,200 firms each year. Currently, 10,125 firms are certified under the program. These firms report annual revenues of $18 billion and employment of 140,000 people, of whom 96,800 live in distressed communities.

In FY 03, agencies awarded $2.44 billion, or 0.99% of total Federal prime contracting dollars, to HUBZone firms. We estimate that $133,500 of contract revenue supports one job. Accordingly, contract awards to HUBZone firms in FY 03 supported 18,300 American jobs, of which 12,800 were held by residents of distressed communities.

Along with that, the SBA's Office of Advocacy saved American small businesses from approximately $6.3 billion in bureaucratic red tape and fees in FY 2003. Because burdensome government regulations are often a reason cited for firms moving overseas, this significant savings will contribute greatly to keep more American companies competitive.

24. The SBA has been conducting streamlined and standard competitions to introduce private sector competition to certain activities performed by the agency under OMB's Circular A-76. Under the SBA's FAIR Act inventory for FY2003, the SBA reported that 2,402 or 66 percent of Full-Time Equivalents (FTEs) are devoted to performing commercial activities that could be subject to competitions.

Although we support the agency's effort to reduce cost and streamline activities, the SBA has not stated the cost savings by outsourcing these activities. Under Circular A-76, the SBA is given the authority to outsource certain activities to the private sector if the competition provides a cost savings. However, the agency is requesting $4 million for this effort without any projection of cost savings. We understand that the SBA needs to expend the money for these activities before the agency experiences a cost saving. Before supporting the agency's budget request for these effort, we request seeing a cost savings plan for each activity the SBA will undertake.

What is the SBA's expected cost savings for the competitive sourcing plans?

$4.0 million is the initial capital investment required to implement the changes to SBA's operations and processes from the competitions to be completed in FY 04 and FY 05, resulting in future year operating budget savings estimated at $5.5 million annually.

For background, this number was developed as follows:

*** 4 competitions underway to be completed/executed in FY 2005: (1) SBIC examinations; (2) civil rights compliance reviews; (3) GC/BD applications and reviews; (4) Disaster loss verifications.**

*** (1) SBIC has already calculated the savings in year 1 to be about $450,000 (ignoring other costs to execute such as personnel impacts)**

*** For (2), (3), (4); SBA's annual baseline costs are estimated at (2) $1M; (3) $6M; and (4) $10M--for a total annual cost to SBA of about $17M in operating funds.**

*** OMB has indicated that savings have averaged 30% from past competitions government-wide.**

*** SBA's estimate has been calculated as: $450K+ ($17M X 30%=$5.1M) for a total of $5.5M in estimated annual operating budget savings at a future date.**

In addition to the above, we have initiated the planning to begin a competition involving disaster loan servicing that will be completed in FY 05. Although not yet started--so cost estimates have not even been developed yet--if we assume that between 100-150 FTEs will be impacted (using SBA's average salary) yields an estimated baseline cost estimate of between $7-12M. Using OMB's savings estimate of 30% would yield anticipated annual operating budget savings at a future date of between $2.1-$3.6M, in addition to the above.

25. I would like for you to address the issue of zero funding for the Native American Outreach program. I understand that the SBA intends to continue focusing efforts on this segment of the population, even without specific funding for the Native American Outreach, by working through your core programs – such as the SBDCs, SCORE, Women's Business Centers, and SBA District Offices – to provide training and assistance services to Native Americans.

Can you explain how you plan to direct the efforts of these programs to reach out to, and fully serve, this unique population?

SBA's goal is to improve the participation of Native Americans in SBA's core programs, including the SBDCs, SCORE and Women's Business Centers (WBCs), through several ongoing initiatives implemented by SBA District Offices:

1. An advertising campaign is currently being developed to provide marketing products promoting SBA programs to American Indian and Alaska Native small businesses. The campaign is being developed by G&G Advertising, an 8(a) American Indian-owned company, with offices in Albuquerque, New Mexico and Billings, Montana. A brochure advertising SBA has already been developed. In addition, five brochures will be developed to publicize the core SBA programs including: WBCs,

SCORE, SBDCs, Veterans Outreach Centers, and the 8(a) program.

2. Informational material on Native American issues will also be developed for the SBA staff including the Regional and District offices. The ONAA staff has had discussions with the Regional and District staff as to what types of information on Native Americans they need. Most of the information requested has centered on legal issues including types of Indian land ownership, types of tribal governments, tribal corporations, tribal-specific laws such as P.L. 83-280, trusts and self-determination.

3. Other informational material that will be provided to the SBA Regional and District offices include a report prepared for SBA's Office of Native American Affairs (ONAA) on demographics of the Indian tribal areas by the U.S. Census Bureau and Nth Degree, a small business, and the Tiller's Guide (Guide). The Guide is an economic reference guide to over 580 Indian reservations in 36 states. Each entry in the Guide contains maps, detailed information on tribes, and contact information. Brief historical and cultural overviews establish the context for extensive information on: natural resource bases, industries and enterprises, physical infrastructure, available community services such as educational and health services, tribal governments, demographic information and land size and ownership patterns.

All resource partners of SBA's Office of Entrepreneurial Development (ED) are required to serve Native American populations. Delivering the full array of SBDC entrepreneurial services to Native American populations has been a mandate of the SBDC program since 1997 as delineated in the SBDC annual Program Announcements and Program Awards. The intent is for SBDC and the other ED program areas to improve delivery of already mandated services to tribal lands, enhanced by the deliverables of the preceding two years of earmarked funding.

26. Given that the SBA is not requesting specific line-item funding for Native American Outreach, what assurances does this Committee have that the agency will continue to focus adequate attention and resources on this important group?

As mentioned in our response to question 25 above, all SBA resource partners are required to serve the Native American population, particularly the SBDC program where it is explicitly delineated in the annual Program Announcement. The Agency has a history of delivering services to this focus area with such programs as Tribal BICs (TBICs) and more recently with economic development projects and marketing campaigns. In years without earmarked funds for this purpose, the Agency continued to deliver services to Native American nascent entrepreneurs and existing tribal businesses.

Each of the ED core programs maintains records of the services they provide to Native Americans. The information is compiled quarterly in a report entitled the

"ED Quarterly Performance Data Report." The quarterly reports are compiled into an annual report.

Also, the ONAA is located within the Office of Entrepreneurial Development (ED). ONAA plans to maximize the benefit of being within ED by continuing to work closely with the other ED offices. Some of the joint efforts include developing the annual plans for the ONNA and establishing strategic objectives goals and milestones for all ED Offices.

27. What kinds of internal oversight will there be to ensure that Native Americans are adequately served?

SBA has designated the position of Director of the Office of Native American Affairs as a political appointee slot for the express purpose of elevating the status of this program office to a Management Board position at the Agency. The incumbent, Mrs. Thelma Stiffarm, is a Native American with experience and accomplishments in tribal government and tribal affairs. It is under her direction, and in consultation with tribal governments, that the FY 2003 and FY 2004 earmarked funds for the Native American program are producing the deliverables which will enable ED and its resource partners to expand their current delivery capability and to bring entrepreneurial education and training to tribal lands. In addition, as mentioned above, the Agency has in place a mechanism to collect data which will continue to inform management of SBA's progress in increasing agency outreach to Native Americans.

28. What role, if any, will the Office of Native American Affairs play in this service delivery plan?

The Office of Native American Affairs (ONAA) is located within the Office of Entrepreneurial Development (ED). ONAA plans to maximize the benefit of being within ED by continuing to work closely with the other ED offices. Some of the joint efforts include developing the annual plans for the ONNA Office and establishing Strategic Objectives Goals and Milestones for all ED Offices.

In addition, ONAA works closely with other SBA divisions including the Office of Procurement and Grants Management, the Office of General Counsel, the Office of the Chief Financial Officer, and the Office of Field Operations. ONAA also works closely with SBA Regional and District offices.

29. In SBA's Congressional Submission for FY2005, you mention that one of the goals for the Office of Entrepreneurial Development is to "deliver training to SBA personnel on doing business in Native American communities."

(a) Would you please elaborate on the training that you plan to provide to better enable these personnel to reach out to Native American communities, which, as I'm sure you are aware, can be very different from their surrounding communities – and from one another?

SBA has developed and implemented a small business development training program for Native American entrepreneurs, particularly those who are located in the most disadvantaged tribal areas. SBA has entered into an interagency agreement with the Southwest Indian Polytechnic Institute (SIPI), a tribal college within the Department of Interior, Bureau of Indian Affairs and located in Albuquerque, New Mexico. SIPI is responsible for developing customized training for Native American nascent and existing entrepreneurs. In addition to customizing existing SBA training and materials to be more culturally and legally specific, SIPI is developing new curricula on how to start and grow small businesses. SIPI is providing on-site training sessions in the reservation communities in the most economically depressed areas throughout the country. Training curricula will also be adaptable for online access and other media delivery, including, but not limited to, compact discs and written correspondence courses.

(b) To follow up on that training, why is this plan limited only to Women's Business Center personnel? Why would such training for other SBA personnel, especially SBDC and District Office personnel, not be beneficial to the Native American community?

On page 40 of the SBA FY 2005 budget, SBA erroneously left out a heading for the section covering Native American assistance. The last two bullets listed under the WBC program should have come under a separate category for the Office of Native American Affairs – and were not intended to be limited to the WBC program. Although training will not be exclusively provided through the WBCs, where WBCs can provide increased assistance to Native Americans, they will do so.

WBCs with a Native American focus include: 1) The Oklahomans for Indian Opportunity, Norman, OK; 2) The Women's Economic Self-Sufficiency Team (WESST) Corporation in New Mexico, which has four WBC awards serving Farmington/Las Cruces, Santa Fe/Taos, Bernalillo/Albuquerque and Roswell; 3) Anchorage YWCA, Anchorage, Alaska; 4) Southern Oregon Women's Access to Credit, Medford, OR; and 5) Center for Women Business Institute, Sioux Falls, SD.

(c) Another goal for the Office of Entrepreneurial Development is to "implement and evaluate pilot technical assistance program for Native American communities," through the Women's Business Centers. Again, could you elaborate on the "pilot technical assistance" program: What kind of assistance will the program provide? Where will the pilot program be implemented (i.e. what areas/communities)? Will the program be targeted only to women?

Again, this effort will not be limited to the WBC program. The WBC program is committed to providing services to Native Americans. In FY 2003 the SBA's

network of WBCs served 1,264 clients that indicated that they were Native American/Alaskan Natives. Additionally, we will work with the Office of Native American Affairs to encourage the WBC's in geographic areas with a large Native American population to develop culturally appropriate programs to serve the Native American population.

Under the ONAA Initiative, SBA solicited and awarded several contracts to small businesses, including American Indian-owned businesses, as pilot technical assistance projects for Native American entrepreneurs in the most economically depressed areas of the country. The SBA Technical Evaluation Committee reviewed 45 proposals submitted in response to the SBA solicitation which was published in FEDBIZOPPS from August 19 to September 16, 2003. To illustrate the type of assistance pilot program awards provide and the geographic areas affected, here are some examples of awardees and their projects:

Arviso Business Consulting
A Navajo tribal member-owned firm that is developing two Cultural Tourism Corridors for rural micro-enterprise development in the Navajo Nation.

Kauffman & Associates
A small Indian-owned company in Spokane, Washington, Kauffman is developing an innovative package of economic development services that can be tailored to meet the needs of Indian small business throughout the country.

Mandaree Enterprise Corp.
A tribally-owned company on the Fort Berthold Indian Reservation in North Dakota, Mandaree Enterprises is developing a Business and Technology Incubator to provide infrastructure support and access for Native American entrepreneurs. The incubator services will be offered on a nation-wide basis.

(d) Also, why would the pilot program be funneled only through the Women's Business Centers and not through the other core programs (such as SBDCs, SCORE, and the District Offices)?

The pilot program will not be funneled only through the WBC program. Please refer to our response to question 29(b).

30. I want ask you about the SBA's Business Information Centers (BIC), which were not funded at all in this year's budget request. I want to stipulate that I am aware that OMB's assessment of the program found that: (1) The program lacks a clear purpose or outcome goals to measure performance; (2) there are no data to show that the program has resulted in long-term benefits to small businesses; (3) the agency spent approximately $14 million to manage and support $475,000 in grants (according to SBA's cost allocation data); and, (4) the program is duplicative of services provided by Federal, State, and nonprofit

entities.

(a) Obviously, we do not wish to support or continue an ineffective program; however, I want to ask you if it is possible that these issues are a result of program management or oversight as opposed to the program itself?

(b) In your view, is there an alternative way to improve this program without removing the service altogether?

(c) As I mentioned, the OMB declared that, "the program is duplicative of services provided by Federal, State, and nonprofit entities." Could you please tell us some of those entities that offer this service and how accessible they are to small businesses? Has there been any effort by your agency to determine if small businesses are aware of these other services or how accessible these other services are to small businesses?

(d) Will your District Office staff and resource partners (SCORE, SBDC, WBCs) know where to send a small business that is seeking these services now that the BICs will no longer provide it for them? Do you have any plans to implement a referral service or to inform your staff and resource partners where they can direct a small business seeking these services?

The small business sector is dynamic and fluid. While the BICs were an innovative concept a decade ago, much has changed since that time. Today small businesses routinely have access to computers, the Internet and other equipment, and most public libraries possess BIC-like resources. Additionally, our extensive network of resource partners such as SBDCs, SCORE and Women Business Centers are providing critical information and support. Therefore, the small business community's need for the type of services and resources historically provided by BICs can now be met more effectively and efficiently by other local and SBA sources. Under the proposed SBA transformation plan, SBA intends for BICs to continue operating as community- based and community-supported resources, independent of Federal funding.

This is not a question of program management or oversight, rather it comes down to the most efficient leveraging of direct and indirect resources the Agency commits to BICs in the field and headquarters and if BICs provide value to our clients.

BICs are a function of SBA District Offices and those offices in turn work very closely with SCORE, SBDCs and WBCs and other community based organizations. We feel confident that the small business clients will be referred appropriately to alternative resources for assistance through a variety of public education means, such as working with SBA resource partners and through District Office public information networks.

31. I know that in FY 2003, the SBA expanded the SBDC program by adding 5 new lead centers, which I am sure will produce noticeable results in those communities. Furthermore, in that year the program counseled a record 268,139 clients. I would like to congratulate you on successful expansion of a valuable service, and inquire about your plans for further expansion of the SBDC program. I understand that the Office of Entrepreneurial Development hopes to increase the number of jobs created or retained by the program, but I would like to know about your plans to expand the program and increase the number of service delivery points and the number of clients served.

The SBDC program did indeed grow by five new lead centers in FY 2003. However, these five new centers (which were all established within the State of California) are a result of the restructuring of the SBDC network in that state rather than an expansion of the SBDC program. This action became necessary after the California Trade and Commerce Department declined to continue serving as the lead center for the state. In the summer of 2003, after consulting with state and local economic development specialists and local SBA officials, SBA made the decision to divide the California SBDC network into six separate SBDC regions. These regions are geographically consistent with the service areas of SBA's six California district offices. It was SBA's determination that six regional lead centers would better serve the needs of a state of the size and complexity of California than could a single, centralized lead center.

With regard to the issue of expanding the SBDC program, SBA does not foresee the need for increasing the number of lead centers beyond the current figure of 63. On an annual basis, each lead center stipulates how it will serve its geographic areas, including the number of service centers it can support and where those service centers should be located. These decisions are based on surveys that identify the localized needs of their clients. The SBDC program continues to operate in over 1100 locations nationwide—from aerial counselors serving isolated Native Alaskan villages to marine services in the Outer Banks of North Carolina. There are also lead centers in Guam, the U.S Virgin Islands, Puerto Rico, American Samoa, and the District of Columbia.

As our FY 05 budget request indicates, despite a slightly reduced appropriation request, SBA anticipates and has goaled for a 3% increase in the number of clients served by the SBDC program. This expansion of the SBDC client base will be accomplished through the efficient utilization of electronic media, such as the Internet, for the provision of computer-based counseling and training services. In addition, SBA is working with the SBDCs lead centers to leverage their electronic training materials~~,~~ by ensuring that such ~~that the~~ materials are developed within the framework of a comprehensive national plan and are made available to all SBDCs, SBA resource partners, and the Small Business Training Network (www.sba.gov/training). This initiative will permit each SBDC to draw upon pre-developed counseling and training materials that represent the "best of the best" of

what the SBDCs program has to offer. SBDCs will have access to both standardized materials of general applicability and customized materials that are tailored to meet specific client needs. This will also allow the SBDCs and SBA's other resource partners to provide their small business clients with faster, and higher-quality counseling and training on an on-demand, around-the-clock basis.

In addition, SBA is continuing to work with the SBDCs to increase assistance to existing businesses in the manufacturing sector through our relationship with the National Institute of Standards and Technology's (NIST) Manufacturing Extension Partnership (MEP) program. Currently, more than 50 of our SBDC service centers work with the MEP on everything from co-located specialized assistance to collaborative field training and SBA is committed to increasing the number of centers participating in this program.

Finally, SBA anticipates that, due to their continuing economic constraints, state governments will increasingly rely on SBDCs to help them meet their business development objectives. This will likely result in an increase in the number of clients referred to SBDCs by state development organizations. By providing training and counseling to both nascent entrepreneurs and existing businesses in ever increasing numbers, SBDCs will play a greater role in stimulating local economies through job creation and retention.

32. The SCORE program is one of the most successful and cost-effective entrepreneurial assistance programs of the SBA. Furthermore, SCORE is taking steps to improve and expand their online counseling, which will increase their availability to small businesses. I believe that these efforts should be encouraged, and that these and other efforts to expand their service, and increase their client base, should be supported.

Consequently, I would like you to provide some thoughts on ways that the SBA could further support SCORE's efforts other than increasing the funding for the program?

SCORE is a valuable SBA resource partner and the Agency is committed to its support of SCORE and encourages its growth and continued success. To that end, SBA promotes and supports SCORE in a variety ways, recognizing that an increase in funding has not been requested: SCORE is highlighted on the SBA website; strategic alliances with the private sector frequently include SCORE as a provider of counseling and training; and SCORE's online email counseling has been a great SBA success story and that function is marketed extensively. The Agency is working with SCORE to increase the number of minority and women counselors. Referral of clients to SCORE for technical assistance will be concurrent with the phase out of the BICs and other SBA programs such as PRIME.

Questions submitted by Senator John F. Kerry, Ranking Member

1. In his February 12, 2004, testimony before the Committee, Administrator Barreto stated that because of its importance and because of the need for consistent funding, the SBA rolled the funding for the HUBZone program into the overall funding for the office of Government Contracting and Business Development (GCBD). Why was funding for the 8(a) program not also rolled into the GCBD budget?

While the HUBZone program previously received separate line item funding in SBA's budget request, the 8(a) Business Development ("BD") program has not had a separate line item. Instead, the 8(a) BD program has been funded out of GCBD's budget. SBA has only intermittently received funding for the HUBZone program. Therefore, to ensure continuity of operations, the SBA decided to incorporate funding for the HUBZone program into the overall GCBD budget and not request separate funding as a non credit line item.

2. The increase in overall funding for the GCBD office was only increased by $2 million. Why do you believe this increase is sufficient to enhance and grow the HUBZone program, which requires $2 million at its current level, as well as all the other programs administered by the GCBD office? Please provide a breakdown of the budget within the GCBD office including specific proposed funding for the HUBZone program, the 8(a) program and 7(j) technical assistance.

SBA's total request for all GCBD programs in FY 2005, based upon our full costing model, is $79.8 million. This is a $2.5 million increase over GC/BD's FY 2004 budget of $77.3 million. This increase covers mandatory cost increases, such as inflation and cost of living increases. The full cost of programs includes both line items and regular salaries and expenses costs.

Under full costing assumptions, the three programs in question are budgeted at the following amounts for FY 2005:

HUBZone $6.7 million
7(j) $3.2 million
8(a) $37.6 million

3. In her testimony, Ellen Golden, President of the Association of Women's Business Centers made it clear that many centers have already had their funding reduced and that their resources were "stretched to the breaking point." Further, she stated that the goals of the SBA were created without any discussion with either the Association or the centers themselves. It became clear during the hearing that the Association was completely unaware of SBA's plan, which had been described to Committee staff in briefings on the FY 2005 budget, to further burden their already stretched resources by adding 7(j) technical assistance to the duties of the women's business centers to compensate for the 25 percent cut to the program. Further, Ms. Golden made it clear that the centers neither have the resources nor the expertise to perform such training. Why has the SBA planned to

transfer the responsibilities for 7(j) training to the "core programs" without also transferring the resources necessary to sufficiently meet the needs of the centers and the small firms that desperately need this training? Why has the SBA chosen to increase the duties of the "core programs" regardless of the challenges to the resources and limitations of their capacity and capabilities?

The overall strategic planning for the WBC program as well as other ED core programs includes establishing long-term targets for the number of clients to be counseled and trained. To meet these objectives on an annual basis, the District Office then develops targets for the individual resources to meet at the local level. SBA will work to ensure that these targets are negotiated at the local level where local personnel can best determine their ability for goal achievement. This process is designed to take into consideration the resources and expertise of the local partners and the needs of the community – especially where resources are strained due to changing funding levels. National goal levels as well as previous year local goals are for the first time stipulated in the FY 2004 program announcements for all ED programs.

Since many of the services provided by the 7(j) program are duplicative of core programs of ED as determined through PART Evaluations and other mechanisms, it is a logical step that ED technical assistance programs assist these clients. With equitable and locally negotiated target goals, no local resource partner, whether a WBC, an SBDC or SCORE chapter should be overburdened by this referral collaboration.

4. Now that it is abundantly clear that the needs of 7(j) technical assistance cannot be met by simply transferring the duties to the SBA's "core programs," how does the SBA plan to make up the shortfall created by a 25 percent cut to the 7(j) technical assistance program?

SBA believes that funding provided for the 7(j) program is adequate to provide effective and efficient technical assistance to eligible small businesses concerns.

An FY 2004 7(j) contract for "Developmental Training" will provide nationwide business development assistance to 8(a) program participants in the developmental stage of the program and other 7(j) eligible clients. This training will address core developmental business competencies such as accounting; marketing; access to credit, capital, security, and federal procurement. By providing early training, SBA will better prepare 8(a) small businesses to obtain contracts sooner in their 8(a) tenure.

In addition, another FY04 7(j) contract for training will address the business needs of small firms transitioning from the 8(a) program to the open competitive marketplace. This training will increase small business success by bridging opportunity gaps and increase the probability of long-term success for small businesses.

5. Of the "core" entrepreneurial development and technical assistance programs, please list which program or programs are immediately prepared, on Oct. 1, 2004, to make up for the elimination of the following small business programs: a) SBA-backed U.S. Export Assistance Centers to serve small export firms; b) Business Information Centers; c) BusinessLinc sites; and d) Native American outreach program sites; e) Program for Investment in Microentrepreneurs (PRIME) sites; f) New Markets Venture Capital program sites; g) SBIR-FAST program sites; h) SBIR Technical Assistance/Rural Outreach center sites; and g) Microloan intermediaries that provide technical assistance and microloans and those that provide solely technical assistance to microentrepreneurs. Please list each center, site or intermediary that is closing with the corresponding "core" program site(s) that will absorb the closing site's clientele. Include the number of clients assisted by the closing site and how many of these are expected to be assisted by the core program site(s). What specific qualifications, expertise and experience does the "core" program site have in assisting the clientele of the closing site?

All of the programs listed above provide services that are also provided by our core infrastructure. That is why the programs listed above are duplicative and do not need a line-item in SBA's budget. The SBA can better manage its budget, and thus the services provided by its programs, if the budget does not include various line-item programs.

SBA is working with SCORE, SBDCs, WBCs and our other resource partners to create a plan to ensure that current and potential clients of BICs, PRIME service providers, etc. will continue to receive quality technical assistance SCORE, SBDCs, and WBCs have well-established service delivery networks that reach all 50 states, the District of Columbia, and all U.S. territories. SCORE's online counseling services provide an alternative to traditional 'brick and mortar' technical assistance centers, as do the online Small Business Training Network and the Online Women's Business Center. The expertise and experience that SBA's resource partners possess in the areas of providing information, counseling, and training include the core elements of business plan preparation, procurement, and access to financial assistance. Clients of the discontinued technical assistance programs will therefore be able to transition to our other resource partners with ease and confidence.

BIC sites which have ceased operations since the end of FY 2003 include: Wilmington, DE; Santurce, Puerto Rico; and Cleveland, OH.

6. Why has the SBA created a goal to have the women's business centers train SBA staff in Native American Outreach? Please identify which WBCs have Native American outreach experience. Will the SBA be creating a position within SBA districts specifically for Native American outreach? Please explain.

Due to a typo in the FY 2005 budget submission, it appeared as though a specific

WBC goal had been created for this activity. This is not the case. However, the WBC program is committed to providing services to Native Americans and is working with the Office of Native American Affairs to increase the services provided to Native Americans.

WBCs with outreach experience pertaining to the Native American population include: 1) The Oklahomans for Indian Opportunity, Norman, OK; 2) The Women's Economic Self-Sufficiency Team (WESST) Corporation in New Mexico, which has four WBC awards serving Farmington/Las Cruces, Santa Fe/Taos, Bernalillo/Albuquerque and Roswell; 3) Anchorage YWCA, Anchorage, Alaska; 4) Southern Oregon Women's Access to Credit, Medford, OR; and 5) Center for Women Business Institute, Sioux Falls, SD.

SBA's resource partners do have a history of providing services to the Native American community. Data for FY 2003 indicates that slightly over 1% of SBA's resource partner clients in the SCORE, SBDC, WBC and BIC programs were Native Americans, somewhat comparable to the 1.5% percent of Native Americans in the total U.S. population.

Additional evidence of SBA's efforts to reach Native Americans through our resource partners is found in their respective program announcements. Providing assistance to the Native American population has been in the SBDC announcement since March 1997 and in the SCORE Notice of Award beginning in FY 2002. The WBC program announcement provides that grant applicants must address how they will serve "a representative number of socially and economically women" in its target populations.

7. How much has the SBA spent as a result of cosponsorship agreements for each of the past three years? For each cosponsorship event, please list the date, amount spent by the SBA (including travel expenses), location of event, key speakers, the specific purpose of the event, and groups cosponsoring, contributing, or associated with the event. Also note for each entry if cosponsors or participants were charged a fee.

Please reference the attached information, headed "Cosponsorship Agreement."

8. What is the SBA's role in the Department of Labor's GATE program? What SBA resources have gone toward assisting in the GATE program? How is the GATE program similar to the SBA's SBDC program?

About 18 months ago, DOL approached SBA to discuss a collaboration that would help increase awareness of microenterprise services through community outreach, offer microenterprise training and technical assistance to individuals seeking help in starting their own small business, and provide DOL resources to technical assistance providers.

SBA's Microenterprise Development Branch was DOL's initial contact point, meeting with DOL on several occasions and sharing information with other SBA offices. Through a procurement process that included some input from SBA and others, DOL selected IMPAQ International to administer what was named "Project Gate".

Project Gate is a 5 year research study regarding the impact of technical assistance on the unemployed who choose self employment over re-employment. Although initially SBA headquarters personnel served on the steering committee, IMPAQ has added a number of small consulting firms to its contract and this group is now working directly with local economic development organizations. Involved in the study, which is limited to areas of Maine, Minnesota, and Pennsylvania, are SBA resource partners (SBDCs, WBCs, and Microloan Program participants), other local organizations and local unemployment offices.

- **The Maine SBDC is under contract to IMPAQ, administering several contracts for them. Under those contracts, the Maine SBDC is assisting with the development of an assessment tool and will do all the counseling for Maine's Project GATE participants. The Maine SBDC has contracted out the training portion of Project GATE to SBA's WBC, and other vendors.**

- **Two regional centers in the Minnesota SBDC network (Duluth and St. Thomas) are participating through a direct contract with IMPAQ. They are providing all services ranging from the assessment to training, counseling and identifying funding opportunities, in that locality.**

- **SBDC personnel at Duquesne University in Pittsburgh, PA, are also involved in Project Gate although the involvement is limited to one or two SBDC staff who are reimbursed for their efforts.**

9. How many loans were made through the USEACs in the past three years? Please list by year, number of loans made by each SBA-backed USEAC, dollar amount of loans made by each SBA-backed USEAC, and total loans and dollar amount for all SBA-backed USEACs.

See attached chart

10. Taking inflation into account, how many women's business centers are receiving less funding from the SBA this year than last? Please list by state.

Under the current FY 2003 appropriation, three regular and thirty-three sustainability WBCs received less funding than in the previous FY 2002 project year.

Regular WBCs
The three recipients of regular WBC awards that requested less Federal funds than the previous FY 2002 project year were:

1. Midway College Center for Women, Diversity & Leadership (Midway, Kentucky)
2. Queens County Overall Economic Development Corporation (Queens, New York)
3. North Carolina Institute of Minority Economic Development (Durham, NC)

Sustainability WBCs
In FY 2003, sustainability funds were awarded on a three-tiered approach (i.e., at $120,000, $111,000 and $102,600) based on the number of clients each WBC trained and counseled. The lists, by tier group, are provided below.

Seven sustainability centers are funded at $120,000
1. Women's Business Development Center (Chicago, IL)
2. Women Entrepreneurs of Baltimore (Baltimore, MD)
3. University of the Sacred Heart, Women's Business Institute (San Juan, PR)
4. Fort Worth Business Assistance Center (Fort Worth, TX)
5. Salt Lake Chamber of Commerce, Women's Bus Center (Salt Lake City, Utah)
6. Community Capital Development (Seattle, WA)
7. Wisconsin Women's Business Initiative Corp (Madison, WI)

Twenty are funded at $111,000
1. Women's Business Assistance Center (Mobile, AL)
2. SELF-Employment Loan Fund (Phoenix, AZ)
3. Mi Casa Business Center for Women (Denver, CO)
4. National Women's Business Center (Washington, DC)
5. Institute for Social & Economic Development (Des Moines, IA)
6. Coastal Enterprises, Inc. (Wiscasset, ME)
7. Center for Women and Enterprise (Boston, MA)
8. Center for Empowerment and Economic Development (Ann Arbor, MI)
9. Minnesota Women's Business Center (Fosston, MN)
10. Mississippi Action for Community Education (Greenville, MS)
11. Women's Business Center, Inc. (Manchester, NH)
12. Women's Venture Fund, Inc. (New York City, NY)
13. Women's Economic Self-Sufficiency Team (Las Cruces/Farmington, NM)
14. Women's Economic Self-Sufficiency Team (Bernalillo/Albuquerque, NM)
15. Women's Center of Fayetteville (Fayetteville, NC)
16. Ohio Women's Business Resource Network (Columbus, OH)
17. Women's Business Development Center (Philadelphia, PA)
18. NAWBO, Nashville Chapter (Nashville, TN)
19. Women's Empowerment Business Center (Edinburg, TX)
20. Wisconsin Women's Business Initiative Corp (Milwaukee, WI)

Six are funded at $102,600
1. Anchorage YWCA Women's Fund (Anchorage, AK)
2. WEST Company (Ukiah/Fort Bragg, CA)
3. Women's Initiative for Self-Employment (Oakland, CA)
4. Career Training Institute (Helena, MT)
5. Women's Economic Self-Sufficiency Team (Santa Fe/ Taos, NM)
6. Southern Oregon Women's Access to Credit (Medford, OR)

11. How many states and territories that received funding through the SBDC program in 2000 are receiving less in funding this year? Please list those states and territories and include the difference in funding.

There are no states awarded funds in FY 2003 that fall below the FY 2000 level.

12. How many veterans are counseled and assisted through the Veterans Business Outreach Centers (VBOCs)? Please list by each VBOC for each of the last three years.

See attached table entitled "Veteran's Business Outreach Centers Stats."

13. Which states received SBIR FAST grants over the past three years? Please list by state, recipient, and grant amount. Please include the number of SBIR and STTR awards resulting from this assistance by grant recipient.

Attached is a spreadsheet detailing the states which received SBIR FAST grants for FY 2001 and FY 2002. We did not receive funding in FY 2003 for FAST.
SBA does not have data regarding the number of awards actually received as a result of the assistance. The recipients typically report on the number of Phase I and Phase II proposals that were submitted as result of the assistance but not the number of awards made. There are a number of reasons why this information is not captured for the FAST report, with the primary reason being that procurement cycles for the each Agency vary tremendously and often, by the time the award is actually issued, the FAST project period of performance has expired.

14. Which states received SBIR Technical Assistance grants over the past three years? Please list by state, recipient, and grant amount. Please include the number of SBIR and STTR awards resulting from this assistance by grant recipient.

SBA primarily provides SBIR-related technical assistance through means of the Agency's FAST program grants. However, some of the Agency's SBIR Rural Outreach Program grants may include a technical assistance component. Therefore, we have included a spreadsheet identifying the states that have received SBIR Rural Outreach Program grants over the past three years. SBA does not award any other SBIR-related technical assistance

grants.

15. What are the results of PRIME assistance in each of the past three years? Please list by grant recipient, the number of clients counseled, total hours of counseling, average time spent with each client, economic profiles of clients assisted, demographic and sociological profiles of clients assisted, jobs created or retained, and number of startups created.

The SBA does not currently have a management information system with the capacity to collect that level of detail on small businesses assisted by each PRIME grantee.

16. The SBA writes on page 6 of its FY 2005 Congressional Budget Submission "Unfortunately, funding for these programs has been inconsistent -- provided some years and not other years." Please provide a chart of presidential requests versus congressional appropriations for all non-credit, technical assistance and entrepreneurial development programs for fiscal years 2002, 2003, 2004, and 2005.

See attached chart. SBA's requests for most of these programs have no bearing on the Agency's contention that program funding is often inconsistent, as the Agency often received line-items that weren't requested at all. SBA's point on this matter is that it is difficult to plan from one year to the next when these line-items can fluctuate so dramatically.

17. With the on-going establishment of the 7(a) Loan liquidation and Purchase Center in Herndon, VA, most or all field office liquidation staff have been eliminated. Given this,
    a. How are 504 defaulted loans being liquidated today?

504 loans in liquidation status remain in District offices for oversight of the liquidation process. Loans that are in the Little Rock and Fresno Commercial Loan Servicing Centers that are placed into liquidation status remain in those centers and are not sent to district offices unless a District office has the capability to handle a case and local action is necessary. In district offices with no liquidation loan specialists, the district counsel will assume oversight responsibility for legal issues with assistance from the commercial centers on credit matters.

    b. How many SBA employees are liquidating 504 loans?

Because 504 and 7(a) liquidation functions are in a transitional phase and both district offices and centers are involved, it is not possible to determine the exact number of FTEs currently liquidating 504 loans. However, we estimate approximately 27 FTEs have been involved in this function. In a fully centralized 504 liquidation operation, which assumes liquidation activities conducted directly by CDCs with oversight by SBA, we estimate that 10 FTEs could oversee the liquidation of all 504 loans nationally.

c. Who is liquidating these loans?

SBA employees oversee the CDC liquidation processes on all 504 loans and in many cases directly manage the liquidation because the CDCs have no direct financial interest in the loans (except for PCLPs). The emphasis going forward will be for the CDC to directly manage the liquidation process with oversight by the SBA.

d. Where are these employees located?

The employees handling 504 liquidation are currently located in district offices and the Little Rock and Fresno centers.

e. How many 504 loans are in liquidation?

Approximately 700

f. How many 7(a) loans are in liquidation?

Approximately 14,000

18. Please provide the plan and the schedule of implementation centralized liquidation throughout SBA's centralized and field offices.

Instructions for centralizing 7(a) and disaster liquidations were sent to all SBA field offices in January and February 2004. Almost all disaster loan liquidation cases were sent by the end of February to the disaster liquidation office in Santa Ana, and the 7(a) liquidations cases were sent to the National Guaranty Purchase Center in Herndon. Field offices are completing some liquidation cases that are nearly closed, and overseeing a smaller number of unusual cases that require local handling such as ones involving SBA-conducted litigation. 504 liquidations that were in progress at the time of the centralization of disaster and 7(a) liquidations will remain at field offices until a centralized location to handle this function is identified. When this occurs, the oversight of all 504 cases will be managed from this location and coordinated with field offices for local action when necessary, such as judicial foreclosures or other legal actions. New 504 liquidations are being handled by the commercial loan servicing centers and coordinated with field offices when local action is needed and staffing is available.

19. The FY2005 Budget says "The SBA is consolidating back-office servicing functions, allowing field office staff work to work more closely with their clients in the small business community."

a. How is that possible given that SBA got rid of all the liquidation employees and therefore they don't exist to retrain?

First, the contention that the SBA "got rid" of any of its liquidation employees is an improper generalization. What the Agency did, as the Committee knows, was centralize its loan liquidation and processing functions in order to maximize performance in this area. SBA's pilot programs showed dramatic improvements in the liquidation of these loans, and the same results now are being achieved with all of SBA's loan liquidations.

At the same time, by removing the paperwork and processing functions from the field, SBA employees in the district offices will be able to focus on reaching out to their small business constituents, rather than being confined to their desks doing excessive amounts of paperwork.

b. Is SBA pledging that no more employees will be relocated through directed reassignment and will be retraining staffers to serve clients in our states?

No.

20. The FY2005 budget goes on to say, "The Agency's field offices are using technology, outreach, marketing, and customer relationship management to better meet small business needs." The offices have hardly any budgets and have no resources to market or even travel. Does the SBA plan to give these resources to the district offices? By what percentage is the SBA increasing the budgets of district offices for FY2005?

The statement that the district offices "have no resources to market" is simply incorrect. In fact, the district offices are part of the SBA's core infrastructure, and serve as a valuable resource partner to small business.

As an example, SBA's District Offices have hosted "Small Business Week" events across the country, recognizing the contributions of our Nation's small businesses, while educating the small business community on the resources available through the SBA.

The SBA's budget submission includes a 10% increase in the operating budget of Regional and District Offices.

21. In an email to the Committee last year, August 2003, the SBA said that it had 14,000 7(a) loans backlogged in liquidation. How many loans are now in liquidation?

Approximately 12,000 7(a) loans in liquidation status are now located in the National Guaranty Purchase Center in Herndon VA. The balance of the loans are in the commercial servicing centers, and a smaller number of liquidation loans remain in the district offices since they require complex litigation, local court appearances or the liquidation process is nearly completed and is being closed out.

22. Are all the 7(a) loan liquidation files transferred? If not,

All district offices transferred their files by the end of February

a. How many district offices have transferred files?
b. Provide a schedule, by district office, with the date of transfer or date of planned transfer.
c. Who is handling the files not yet transferred?
d. Broken down by district, provide a list of SBA contacts, names and numbers, for lenders when they have questions.

For all district office liquidation loans that have been centralized in Herndon, lenders may call 703/487-9283, send faxes to 202/481-4674, email guaranty purchase questions to sbapurchase@sba.gov or liquidation questions to loanresolution@sba.gov, or get general information from the National Guaranty Purchase Center website at www.sba.gov/banking/herndon.html

23. Where are disaster loans liquidated?

Disaster business and home loans will be liquidated in SBA's existing disaster liquidation center in Santa Ana, CA.

24. With respect to bonuses for SBA's political and career managers (anyone in the Senior Executive Service) for FY2002, and FY2003:

1. How many were given in each year?
FY 2002—19 FY 2003—15
2. How many employees received them each year?
FY 2002—19 FY 2003—15
3. What was the total for each year?
FY 2002—$376,000 FY 2003—$188,299
4. Provide the breakdown of the bonuses by grade or by political appointment, each year..
FY 2002—19 Career SES FY 2003—15 Career SES
5. Out of which account are bonuses funded?
Salaries and Expenses
6. When were bonuses awarded each fiscal year?
December 2002 December 2003

25. How is it decided which states get virtual offices?

We are unfamiliar with the term "virtual offices."

26. Which states have virtual offices and when were they opened?

Again, we are unfamiliar with this term, and therefore cannot answer this question.

27. The SBA FY2005 budget says of "reduc[ing] fixed costs...rent is a critical piece...." What relocations are in progress or planned for FY2004 and FY2005?

In the current budget environment, the SBA recognizes the importance of minimizing unnecessary fixed cost to ensure the availability of adequate resources to deliver mission critical programs to the Nation's small business community. In conjunction with its ongoing transformation activities, SBA has identified a significant opportunity to reduce its fixed cost by reducing leased space both at its headquarters location as well as among its field offices.

During FY 04, the leases for nine (9) SBA field offices will expire. As a result, SBA will either relocate these offices or enter into new leases in the current location. In each instance, the new lease will be for less space than is currently being occupied. We are estimating that these new lease arrangements will result in an annual cost savings of approximately $436,000.

We have also identified seven (7) additional field offices with unused space that can be released during FY 2004. Releasing this space will enable SBA to realize a further reduction in its annual fixed rent cost approximating $626,000.

Also in FY 2004, SBA will reconfigure its Washington, DC headquarters space. Affected offices will be relocated within the reconfigured headquarters space. This will allow the Agency to reduce its leased headquarters space and realize an annual savings of approximately $728,000.

During FY 2005, the leases for nineteen (19) SBA field offices will expire. As in FY 2004, SBA will either relocate these offices or enter into new leases in the current location. Again, in each instance, the new lease will be for less space than is currently being occupied. We are estimating that these new lease arrangements will result in an annual cost savings of approximately $1,000,000.

28. How many employees of the SBA had 25% or more of their job performing loan liquidation? **303**
   a. How many of those employees still work at the SBA? **191**
   b. How many no longer work at the SBA? **112**
   c. How many were offered voluntary reassignment? **118**
   d. How many were issued directed reassignments to Herndon? **114**
   e. How many now work at the 7(a) Loan Liquidation and Purchase Center in Herndon? **33**

29. The SBA has proposed terminating the microloan and microloan technical assistance programs for FY2005, in part because the SBA claims the borrowers can be served through the SBA's 7(a) program. At the same time, the SBA has proposed expanding the 7(a) SBA Express program, mandating that all loans of less than $500,000 be made through the Express program with a 50 percent guarantee. SBA's Community Express program provides an 85 percent guarantee for the smallest loans. Does the SBA propose to eliminate the SBA Community

Express program in FY2005?

SBA's legislative proposal would effectively eliminate the Community Express program because it provides loans under $250,000 with up to an 85% guaranty.

b. What is the guarantee on SBA Community Express loans?

Same as in regular 7(a) - the guaranty is 85% on loans under $150,000, and 75% for loans over $150,000.

c. What is the maximum term on SBA Community Express loans?

Same as in regular 7(a) – 25 years.

d. How many lenders made/make SBA Community Express loans in FY2002, FY2003, and FY2004?

FY2002 – 25
FY2003 – 31
FY2004 - 28

e. How many loans were made under the SBA Community Express program in FY2002, 2003 and so far in 2004?

FY2002 – 686
FY2003 – 2,572
FY2004 – 1,578

f. What is the total dollar amount for each of those years?

FY2002 - $53.4 million
FY2003 - $71.7 million
FY2004 - $32.2 million

g. How many of those loans have defaulted in each year, and what was the total cost?

FY 2002 – 0
FY2003 – 34 loans defaulted, SBA share $368,131
FY2004 – 89 loans defaulted, SBA share $1,170,172

h. What is the 30-day delinquency rate of those loans in each year?

30 Day Delinquency	Approved	Approved	Approved

Rate	FY02		FY03		FY04	
	Rate by :		Rate by :		Rate by :	
(Loans that are 1-30 days Past Due)	#	$	#	$	#	$
	0.72%	0.95%	0.25%	0.90%	0.09%	0.92%

i. What is the 60 day delinquency rate of those loans in each year?

60 Day Delinquency Rate (30-60 past due)	Approved FY02		Approved FY03		Approved FY04	
	Rate by :		Rate by :		Rate by :	
(Loans that are 60 Days or more Past Due)	#	$	#	$	#	$
	2.51%	2.10%	2.23%	0.96%	0.09%	0.03%

j. For FY2002, 2003 and 2004, what is the total number and dollar amount of loans of $50,000 and less that are made under the 7(a) Loan program, and of those how many were made through SBA Community Express?

FY 04 – 1,578 loans for $32,229,191
FY 03 – 2,572 loans for $70,895,000
FY 02 – 686 loans for $53,437,119

k. What is the loan application fee for SBA Community Express loans?

There is no SBA application fee for a Community Express loan, although lenders can charge a reasonable fee for packaging Community Express loans or for other reasonable services.

l. Who provides the technical assistance to borrowers who receive SBA Community Express loans?

The technical assistance providers vary, depending on the lender, the target market, the needs of the borrower, and the available TA providers in the market.

m. How many hours of technical assistance are provided per borrower, what is the cost, and who pays the cost?

SBA does not currently have a reporting system that tracks the amount, type, or cost of the TA provided by a Community Express lender.

n. Since the SBA can break out subsidy rates within the 7(a) loan program, what was the subsidy rate for the SBA Community Express program in FY2002, 2003 and for FY2004?

SBA has not yet developed a separate subsidy rate for SBA Community Express loans, which comprise a very small percentage of the portfolio.

30. On February 6, 2004, the Committee asked the SBA to explain its statement that making microloans cost 97 cents on the dollar. In the response, the SBA said the following: "The direct and indirect program costs associated with the Microloan program total $28.8 million, which is 97% of the total dollars lent of $29.7 million. The direct and indirect costs include program staff working directly on the program as well as a proportional share of staff time for the other offices and technical assistance delivery channels that support the program."

a. Breakdown all of those costs by name of program or office and dollar amount, specify what account funds it, such as salaries and expenses account or business loans program account.

b. Does the SBA calculate the cost of all finance programs the same way?

c. Why or why not, broken down by loan or investment program?

The table below shows a breakdown of the costs of the Microloan program, which total $28.8 M. This breakdown includes offices, the relevant appropriation account, and amounts.

SBA calculates the total cost of all its programs through its activity based costing model. The enclosed costs for Microloans are derived from that model. These costs are broken down by program – whether loan program, technical assistance, contracting, or other type of program.

MICROLOANS FY 2003

(Dollars in Thousands)

Source of Funds	Office or Source of Funds		Amount
Salaries and Expenses	Regional & District Offices	$	1,398
Salaries and Expenses	Executive Direction	$	411
Salaries and Expenses	Office of the Chief Information Officer	$	321
Salaries and Expenses	Mgmt & Administration	$	204
Salaries and Expenses	Capital Access	$	3,137
Salaries and Expenses	Agency wide Costs	$	707
Salaries and Expenses	Microloan Technical Assistance Grants	$	14,898
Salaries and Expenses	Technical Assistance/Entrepreneurial Development	$	3,847
Business Loans	Loan Subsidy	$	3,879
	Total	$	28,802

31. What factors caused the 504 subsidy rate to decrease in FY2005?

For the 2005 budget, SBA introduced a new econometric model for the 504 program which allows the subsidy rate and fees to adjust more quickly to anticipated economic conditions. The model also takes into account information on each individual loan's characteristics. Because this modeling process is much more specific regarding these items, a direct comparison of the individual changes is difficult. The econometric model was not used for the re-estimates.

In general, we can describe the changes which caused the subsidy rate to decrease by saying that we project defaults will be lower, and recoveries will be higher. Defaults decrease because of the economy and its effects on the loans, while recoveries increased due to reclassification of accounting transactions. The projected recovery rate for the 504 program changed from 17.07% in FY 2004 to 44.27% in FY 2005.

32. Why wasn't the econometric model used for re-estimates on the 504 Loan Guarantee Program?

Following the approach used for 7(a) last year, SBA introduced the 504 econometric model for the FY2005 budget. This creates a consistent approach with other models, and allows a better comparison of the re-estimates to the original estimates, which is one of the underlying functions of the Federal Credit Reform Act. We will be using the econometric model for re-estimates in the FY2004 financial statements, and the FY2006 budget.

33. When will the SBA issue final regulations from the last three-year SBA reauthorization act?

SBA published final regulations for the majority of the statutory changes in the last three-year SBA reauthorization act (P.L. 106-554) on August 28, 2003. SBA anticipates publishing the remaining final regulations dealing with 504 liquidations soon.

34. In SBA's budget, it states that eliminating funding for the 7(a) Loan Guarantee Program "will result in savings of approximately $100 million."

a. Please identify who will receive their savings.

Since approximately $100 million will not have to be appropriated to the 7(a) program, the taxpayers will be getting the savings.

b. Please identify the impact on 7(a) small business borrowers and lenders.

Zero subsidy for the program means consistency and continuity for the program, which will benefit both small business borrowers and lenders.

35. With respect to SBA's new plan for the 7(a) program:

a. Before proposing its legislative change to increase lenders' delegated authority and reduce the SBA loan guaranty to 50 percent across-the-board, did SBA consult with the 7(a) lending industry, including various classes of lenders, and with organizations representing small businesses so as to fully consider the possible impact of the proposal? If so, which ones and when?

While SBA did not schedule any meetings specifically to address the components of the new proposal, it developed the proposal based on on-going discussions of the issues that were raised by lenders.

b. Lowering the 7(a) loan guaranty to 50 percent across-the-board could reduce the Agency's ultimate liability on defaulted loans, but it could also decrease the Agency's 7(a) program fee income. Are fees a factor in the subsidy rate model? If so, how are they weighted against the guarantee factor? Do you have tests or models to show what the long-term impact will be on the subsidy rate? If so, please provide the Committee with them.

Fees are a factor in the subsidy model. SBA's econometric model takes into account fees, guaranty percent, and other economic factors.

c. What assumptions regarding fee amounts and incomes were used to determine that the 7(a) subsidy rate will be zero?

SBA assumed that the temporary fee reduction would sunset, as the statute called for.

d. If the Administration's proposal will take the program to zero, eliminating the need for Federal funding/appropriations and reducing risk to the Federal government, why didn't the SBA request the full authorized program level current law, $16 billion?

$12.5 billion is the estimated demand for the program.

e. On what does SBA base its projection that the program demand will only be $12.5 billion for FY2005 when the pace for FY2004 would indicate the program demand was more than $13 billion before SBA shutdown the program and put in place restrictions on loan size, aggregate amounts, and piggyback loans?

The estimated demand for FY 2004 and FY 2005 is $12.5 billion.

f. The Agency's press release states that if the legislative proposal is enacted immediately "the current lending cap of $750,000 will be removed from the loan program." How does SBA breakdown its projection for program use at the $12.5 billion level – i.e., how many loans are projected by size category – over $1 million, $750,000-$1 million, $500,000-$750,000, $350,00-$500,000, $250,000-$350,000, etc.?

82% of all SBA loans are under $250,000, 50% of all SBA loans are Express, 5% of all SBA loans are over $750,000. SBA assumes this trend will continue and estimated as such in the budget process.

g. According to the SBA's press release, the Agency is projecting that a $12.5 billion program level would support 90,000 loans in FY 2004. This equates to an average loan size of slightly less than $140,000. Does SBA believe that this is the optimal average size for an SBA loan?

SBA believes a low average loan size benefits the most small businesses.

h. Does SBA's research support the conclusion that actual program usage will yield an average loan size of $140,000 without a cap on loan size?

Yes.

i. The SBA's press release states that the legislative proposal will allow for a "potential long-term reduction in borrower and lender fees."

   i. What assumptions were used to determine that borrower and lender fees could be reduced if the "law is enacted immediately?"

If enacted immediately, SBA's legislative proposal would increase lending authority by approximately $3 billion. For FY2005, fees would be less than what they would be if they

were allowed to return to their normal statutory level. Since the SBA Express program runs at a lower subsidy rate, it would also require less fees to run at the same level as the regular 7(a) program. Therefore, as the Express program is gradually phased into the 7(a) program, less fees will be needed to achieve the same results.

ii. Is the projected reduction in fees a reduction from the fees currently mandated by legislation, or a reduction from the higher fees that the Agency asserts will be in effect after expiration of the legislatively mandated reduction?

The fee reduction for FY 2005 is from the statutory level for FY 2005.

j. SBA is intended to be a gap lender with its loan guaranty used to help lenders expand their capacity to lend to credit-worthy small businesses. Typically the guaranty has been used to help lenders: allow longer loan repayment periods, thus increasing the number of small business borrowers with cash flows adequate to repay their loans; make loans larger than their internal lending policies would otherwise allow; make loans that are less fully collateralized; expand their risk assessment criteria to allow more loans to start-up businesses; etc.

i. What effect will reducing the 7(a) guaranty to 50 percent have on these policies?

These policies will stay the same.

ii. Will implementation of the proposed policy change cause a reduction in access to credit for small businesses?

No, there will not be a reduction in access to credit.

iii. Will the changes disproportionately impact various classes of SBA lenders – smaller lenders, rural lenders, lenders that do not currently rely heavily (or at all) on credit scoring?

We believe that all lenders will be able to adapt to the program changes that SBA is proposing and do not anticipate any one type of lender having a more difficult time adapting.

iv. Please share your analysis of the overall impact that the proposed change will have on access to credit for all small businesses including projected dollars and numbers of loans as well as how the Agency will assure that loans made under the 7(a) program meet the diverse needs of various types of small businesses.

SBA believes that access to credit will increase with the proposal because it will be easier and less expensive for lenders to do business with SBA.

k. During FY 2003, many of the SBA's-guaranty loans were processed in SBA's field offices or under the Agency's LowDoc program.

i. If the proposed change is enacted, will the small businesses that, under current program authority, would have received credit through these processes lose their access to credit?

No, SBA will continue to process loans in different locations across the country. Credit worthy small businesses will continue to have access to SBA financial assistance.

ii. How will SBA assure that these businesses are not left without options?

The primary point of contact for a small business seeking SBA financial assistance is the participating lender. Very few small business loan applicants have any contact with the local SBA office now. This will not change.

l. Under the existing SBAExpress program SBA relies totally on participating lenders to attach the SBA guaranty, and so lenders must be specifically approved to participate in SBAExpress.

i. Would this change under the 7(a) legislative proposal? If so, how will SBA assure that participating lenders are competent to assess credit in SBA's stead?

Participating lenders will continue to be required to meet certain performance requirements and standards to participate in SBA's lending programs. With respect to the lender's capacity to assess credit, while the SBA is confident that the proposed 50 percent guaranty will ensure appropriate lender attention and diligence to sound credit standards, the Agency will also continue to closely monitor lender performance to ensure adequate credit assessment.

ii. If not, will this mean that no new lenders will be eligible to participate in SBA lending? Will this limit the availability of small business loans in some areas?

There is no expectation that SBA will exclude new lenders from participating in the loan programs.

m. In order to increase their liquidity, many SBA lenders sell the guaranteed portions of their loans in the secondary market. With the SBA guaranty reduced to 50 percent, lenders that rely on the secondary market to increase their liquidity will have smaller dollar amounts available for sale in the secondary market. Will this have a detrimental effect on the lenders' liquidity – and, consequently, on the funds that they have available for additional small business lending? If not, why not?

We do not feel that the proposal will have a detrimental impact on lender liquidity. There is a market for the unguaranteed portion of 7(a) loans now, and we anticipate the 50% guaranty will cause this market to grow, providing lenders with liquidity.

n. SBA's press release states that enactment of its legislative proposal will reduce the "regulatory compliance burden to [sic] small businesses and lenders."

  i. How will this reduction in the regulatory compliance burden be accomplished?

By reducing the paperwork required for a small business loan under 7(a).

  ii. What impact will the guaranty reduction have on lender regulation requirements, e.g., will lenders be required to maintain larger loan loss reserves?

The unguaranteed portion of SBA loans has a slightly higher capital requirement than the guaranteed portion (1.6% vs. 8%). Therefore, lenders will have to maintain slightly more capital due to the lower guaranty. This will be offset by the lower ongoing fee that will be charged as the guaranteed portion will be smaller.

o. What impact will the increased lender authority have on SBA's lender oversight function?

Having lenders assume more authority will not cause any changes in SBA's lender oversight system, which is designed to identify risk presented by each lender's portfolio.

p. Will the reduced guaranty mean that fewer lenders will participate in the 7(a) program? Why or why not?

No, the reduced guaranty does not mean that fewer lenders will participate. SBA will be the only significant provider of credit enhancements for small business loans. The reduction in the cost of doing business will be a positive development for lenders.

q. Where will SBA process loans if the proposed legislation is enacted?

Loans will be processed through SBA's loan processing centers.

r. What role will the Agency's field offices have in 7(a) lending?

Field offices will continue to solicit participation by lenders, as well as provide a local contact for lenders, both for training and assistance with general questions. Lenders will be dealing with centers regarding individual loan processing issues, just as they have been with PLP and LowDoc.

s. Will SBA propose any exceptions to the 50 percent guaranty limitation, making a higher guaranty available to meet special needs or programs, such as the current practice of allowing 90 percent for export loans?

No, SBA believes 50% guaranty is adequate to induce lenders to provide credit to small businesses that do not meet the bank's standard credit policies.

36. In questions sent to the SBA on February 6th, the Committee requested a breakdown of the daily 7(a) lending allocations per district office and center for December 2003, January 2004, and February 2004. SBA replied: "We do not keep an electronic record of daily District Office allotments. The system sweeps all the accounts at the end of the month and then starts over with the first day of the month."

a. What system is the agency referring to?

The loan accounting system is the Agency system that funds loan activity

b. The request was submitted on February 6, 2004, and the SBA could have provided what was available for February. Please do so for March 2004 before it is deleted from the "system" and continue to do so for the remainder of this fiscal year.

Funds are distributed to district offices based on individual loan requests (i.e. one D.O. may request $1 million one day, but no funds for several days) – therefore, the information we have is the aggregate amount of loan requests made and funded at the end of the month.

c. The districts keep this information. Please have them provide the Committee with that information.

Information is kept on a loan by loan basis, not by individual District offices

d. SBA's reply says that it doesn't keep this information "per district office." The request was for district office and centers. Does the SBA keep the information for the centers? If so, please provide the information.

Information is kept on a loan by loan basis, not by each center.

e. Provide us with the daily lending *approved* in each district and center for "December 2003, January 2004, and February 2004," as originally requested.

Information is kept on a loan by loan basis, not by individual District offices

37. Since October 2004, have the district offices and centers been instructed to hold loans for any period of time before approving them? If so, please identify when this occurred.

Assuming the time frame you are interested in starts in October 2003, the answer is no.

38. What would the subsidy rate for the 7(a) program be for FY2005 if the fee changes and other adjustments that would take it to zero were not assumed?

If legislation were enacted allowing the fees to remain at the same level as in FY 2003 and FY 2004, the subsidy would be approximately 0.95%.

39. What is the amount of appropriations that would be needed to make available $13 billion in 7(a) loan guarantees for FY2005 if the fee changes and other adjustments were not assumed in order to take the subsidy rate to zero?

Approximately $129 million

40. On February 6, 2004, the Committee submitted to the SBA a question requesting to know the program changes to the Master Reserve Fund/Second Market Guarantee Program that are referenced in the SBA's FY2005 budget. In part, the SBA replied, "SBA is beginning to explore the options and will complete further analysis before reaching any conclusions."

c. Is the SBA working with the industry to develop these "small administrative changes"?

SBA is developing a series of options that it would like to fully research prior to meeting with participants. When SBA has developed a list of possible options, it will seek input from the industry to help determine the best available course of action.

d. Why couldn't the Administration make the changes instead of imposing another subsidy rate?

Because it has been determined that the Secondary Market Guaranty program is under Credit Reform, we are required to estimate a subsidy rate for the program, even if the rate is zero.

41. What is the subsidy rate for the 7(a) Secondary Market Guarantee (SMG) before taking into consideration assumptions that would take the program to zero subsidy rate?

Without making any changes to the program, SBA estimated a subsidy rate of .78% for FY2005.

42. Under what conditions would the new subsidy rate for the SMG require a fee from participants?

SBA is exploring a variety of non-fee options for reducing the cost of the SMG. As such, we have not identified any specific conditions that would require a fee to be charged. However, as previously stated, before any changes are made, SBA will be discussing some of the options with our constituency.

43. Is the $10 billion limit on the Master Reserve Fund for FY2005 or for total outstanding secondary commitments?

Credit reform requires annual limitations for zero subsidy credit programs. Trust certificates are for 7a loans sold in the secondary market. $10 billion is well above the annual amount of certificates issued.

44. With respect to the Disaster loan program, what is the "loan-level disaster credit subsidy model"? Is it an econometric model? If not, why not?

The disaster credit subsidy model calculates cash flows for individual loans and then aggregates the cash flows to be discounted. The model operates in two stages. First, we use a set of matrices to estimate the currency status of each loan at the end of the year. To develop the matrices, disaster loans were divided into subgroups (e.g. home vs. business, large loans vs. small) with separate probabilities calculated for each group. Regression equations were used to validate the predictiveness of the probabilities. In the second stage, regression equations were used to predict the amount of underpayment in a period of non-performance, the amount of overpayment in a period of performance, and the amount of recoveries after a charge-off.

The term "econometric model" generally refers to any statistical model that employs regression techniques, which the Disaster model does. However, it is worth nothing that although economic variables (e.g. GDP, unemployment rates) are commonly used in econometric models, many regression models do not include them. The Disaster model does not include economic variables because we did not find that the national level economic statistics available to us for forecasting were useful in predicting borrower repayment patterns.

45. Are asset sales of disaster loans included in the disaster loan subsidy rate model? Why or why not?

The loan sales conducted in 2000-2003 resulted in losses that were fully recognized in the most recent reestimates of subsidy cost for the disaster assistance program. SBA's treatment of the losses followed the requirements set for in the Federal Credit Reform Act, OMB Circular A-11, and the financial standards published by the Federal Accounting Standards Advisory Board (FASAB).

Because further sales are not anticipated, SBA excluded losses on past loan sales from the estimated subsidy cost of new loans and the reestimated subsidy cost of existing, unsold loans.

46. The Administration is imposing a second subsidy rate on the 7(a) loan program for loans sold in the secondary market. Even though the SBA is eliminating the sale of disaster loans going forward, there were seven sales over the years, and those loans sold have terms of up to 30 years. Why are the two programs treated differently?

Under the secondary market guarantee program, lenders sell their interests in the guaranteed portions of the 7(a) loans to investors. At the time of the sale, SBA provides a new guarantee of timely payment of principal and interest to purchasers of the pooled guaranteed portions of loans. It is this additional, new guarantee that SBA has classified as a distinct credit program (the Secondary Market Guarantee Program). Under credit reform, each program must have its own subsidy rate and SBA's budget reflects that. With respect to loans whose guaranteed portions are not sold, the 7(a) loan guarantee also remains in place and the lender can call on SBA's 7(a) guarantee if the small business borrower does not make the agreed upon loan payments.

In the case of the Disaster loan program, SBA held loan sales to sell its interest in the loans to private purchasers. No additional guarantees or credit were extended in the loan sales. The cash flows associated with the loan sales are inherently part of the performance of the Disaster loan program and are therefore incorporated directly into the subsidy cost of the program.

47. What is the net re-estimate of the SBIC debentures program given an upward re-estimate of $127 million for FY2004? How much are actual losses?

For the SBIC Debentures, the cumulative net lifetime re-estimates were -$17.2 million, meaning that this amount is the total returned to the US Treasury since 1992. Since 1992, the account has recorded approximately $2 million in actual losses, although to date SBA has recovered only $3 million on approximately $122 million in defaults.

48. What is the net re-estimate of the SBIC participating securities program given an upward re-estimate of $1.8 billion for FY2004? How much are actual losses?

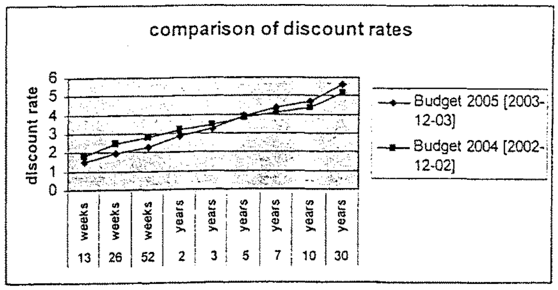
For the SBIC Participating Securities, the cumulative net lifetime reestimates were $1.818 billion, meaning that this amount is the net total received from the US Treasury since 1994. Since 1992, the account has recorded no actual losses, although to date SBA has recovered only $7.6 million on approximately $772 million in defaults.

49. On February 6, 2004, the Committee asked the SBA to explain what caused the SBIC debentures subsidy rate to increase, which the Agency attributed to "a change in discount rates applied in the OMB subsidy rate calculator." Explain the change in discount rates.

As the chart shows below, we compared the cashflows by discounting at the rates used in the 2004 budget and the 2005 budget. Although each cashflow is discounted using a different time period, the chart shows that the present value of the total cashflows is less due to using the 2005 discount rates, resulting in a negative cashflow or a positive subsidy.

	Cashflows (Undiscounted)	Present Value using 2004 Rates	Present Value using 2005 Rates
Upfront Fees	15.47	15.47	15.47
Annual Fees	39.40	32.62	32.41
Defaults	-125.00	-99.57	-98.67
Recoveries	75.00	51.55	50.17
total Cashflows	4.87	0.07	-0.62

"-" represents a cash outflow



50. What are the SBA's program changes to the SBIC Participating Securities program?

Given large current and expected future losses in the program, SBA proposes to amend the SBIC Participating Securities program and reduce risks to taxpayers through structural program changes. The existing program provides inequitable returns on investments for SBA. The participating securitities program does not have an equal balance of risks and rewards between private investors and SBA.

While SBA can provide up to two-thirds of capital for SBICs, it only receives about 10% of any profits from investments under the existing participating securities structure. SBA's proposal would increase the SBA's profit share to one-half of its pro-rata share of invested capital, up to a maximum of 33% of total profits when SBA has provided two-thirds (66%) of a fund's capital.

Under the current structure, SBICs distribute profits equally between the Federal government and private investors if SBA's share of the SBIC's capital is more than 50%. If SBA's share of the SBIC's private capital is less than 50%, then the Federal government's profit share is reduced to roughly 9%.

SBA proposes to extend the 50-50 split of profit distributions to include SBICs that have less than 50% SBA funds. This will cause the Federally-guaranteed participating securities to be paid down faster generally, which should reduce SBA's exposure. This change in profit distributions applies only to companies licensed on or after the effective date of the Act.

Lastly, SBA's proposal would change the distribution policy so that whenever private investors receive distributions equivalent to their paid-in capital, the SBIC would be considered profitable and would need to commence repaying to SBA the prioritized payments — the payments made by the government on behalf of the SBIC to cover interest on the guaranteed debentures.

a. Does the industry support the SBA's proposal?

We are working with the industry to reach consensus.

b. When will the Committee receive the Agency's official legislative proposal?

The Committee received the proposal in June of 2003.

51. Since the Administration wants the SBA's lending and investment programs to be self-funding, why doesn't it propose legislation to change credit reform and allow revolving loan funds, even if it were to propose only a pilot limited to the 7(a) Loan Guarantee Program?

SBA does not feel it is necessary to change credit reform to achieve a self-funding 7(a) program – the proposal that was sent up accomplishes self-funding through fees and guaranty percentages.

Questions Submitted by Senator Evan Bayh

1. What impact on manufacturing of SBA's decision to prohibit "piggyback" loans? What is the impact of the $750,000 loan cap on manufacturers who need an SBA guaranteed loan?

The primary impact of the prohibition on piggyback loans as well as loans that exceed $750,000 will be on those businesses constructing substantial facilities. SBA has no reason to believe that manufacturing concerns will be disproportionately affected. Based on the enactment of H.R. 4062, SBA has eliminated the cap.

2. Historically, what has been the average size SBA guaranteed loan made to manufacturers?

$200,446

3. Before proposing its solution to the current 7(a) funding crisis, did SBA consult with any lenders to determine the impact of its proposal on borrowers or the lending community? Before developing its legislative proposal, did SBA meet with any representatives of the manufacturing community to determine the possible impact of the proposal on manufacturers who are potential borrowers? If so, please provide a list of the dates meetings were held, lenders or representatives of the manufacturing community, and with whom they were held.

While SBA did not schedule any meetings specifically to address the components of the new proposal, it developed the proposal based on on-going discussions of the issues that were raised by lenders.

4. What does SBA project to be the impact on manufacturers of its proposal for solving the 7(a) funding crisis?

The SBA does not anticipate that its 7(a) proposal will have any greater impact on manufacturing concerns than other types of small businesses.

Questions submitted by Senator Conrad Burns

1. The SBA played in an integral role in rehabilitating the post-9/11 economy. With the recent suggestions that the 7(a) loan program operate with zero subsidy, will the SBA's ability to help spur small business growth be hindered if another terrorist attack or severe harm to economy occurs?

Actually, by operating at a zero subsidy rate, the 7(a) program would allow Congress to utilize well in excess of $100 million annually to fight terrorism, instead of paying for 7(a).

2. In the FY2005 budget, both the Federal and State Technology and the Rural Outreach programs were eliminated. Why?

Recognizing that the Rural Outreach Program (ROP) and Federal and State Technology (FAST) programs have been only intermittently funded in the past, and believing that SBA can better serve small businesses by insuring that there is a continuous source of information on these programs, SBA has decided to instead work through our core infrastructure of Women's Business Centers, Veterans Outreach, 7(j) Technical Assistance, SCORE chapters, the Small Business Development Centers and our network of District Offices to see that information on the SBIR program remains available.

Rest assured, the Agency remains committed to the goals of these programs.

3. I also understand that the SBA will be moving toward much greater expansion of the Express loans, rather than the traditional 7(a) loan paperwork. However, I have heard some estimates that the 80 percent of the Express loans are done by only 20 percent of banks. What participation level among community banks is expected with the increased use of the Express program? Will smaller banks participate? Additionally, if the SBA's guarantee rate is reduced from 75 percent to 50 percent, therefore exposing banks to greater liability, why would these smaller banks continue to participate?

The top 25 SBAExpress lenders produced 29,085 Express loans for 88% of the total Express loans. SBAExpress loans represent 77% of these lenders' total SBA 7(a) loan portfolio. The average SBAExpress loan size is $40,145. 775 lenders have signed up for participation in the SBAExpress loan program, including 546 within the last year and a half. 433 lenders have made more than 33,000 SBAExpress loans in FY03. 75% of SBAExpress lenders are considered small by industry standards. SBA believes that smaller banks will participate because the cost of doing business

U.S. Small Business Administration
ANNUAL APPROPRIATIONS
NON-CREDIT PROGRAMS

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
7(j) Technical Assistance Program	$ 3,600	$ 3,600	$ 3,600	$ 1,500	$ 2,000
Advocacy Research	1,100	1,100	1,100	1,100	1,100
Business Information Centers	500	500	500	475	400
BusinessLINC	0	7,000	2,000	2,000	0
Drug-Free Workplace	3,500	3,500	3,000	2,000	1,000
HUBZones Program	0	2,000	0	0	2,000
Microloan Technical Assistance	23,200	20,000	17,500	15,000	15,000
National Ombudsman	500	500	500	500	500
National Women's Business Council	600	750	750	750	750
Native American Outreach	0	0	0	2,000	2,000
New Market Venture Capital	0	30,000[1]	0	0	0
One Stop Capital Shops	3,100	3,100	0	0	0
PRIME Technical Assistance	0	15,000	5,000	5,000	5,000
Pro-Net	500	500	0	0	0
SBDC Grants	84,500	88,000	88,000	89,000	89,000
SBIR - FAST	0	0	3,000	0	2,000
SBIR Technical Assistance	500	5,000	500	0	250
SCORE Program	3,500	3,750	5,000	5,000	5,000
Systems Modernization	0	8,000	0	0	0
USEAC Program	3,100	3,100	3,100	0	1,500
Veterans Outreach	615	4,000	750	750	750
Women's Business Census	790	694	694	0	0
Women's Business Centers	9,000	12,000	12,000	12,500	12,500
Workforce Transformation	0	2,000	0	0	0
Rescinded Appropriation	0[2]	0[3]	0[4]	(896)[5]	(1,479)[6]
Total	$ 138,605	$ 214,094	$ 146,994	$ 136,679	$ 139,271

1 Appropriated funds from FY 2001 were carried over into FY 2002, FY 2003, and FY 2004.
2 There was no rescission applied to the FY 2000 appropriations.
3 The rescission was 0.22% but was not applied to individual line item appropriations.
4 The rescission was 0.38% but was not applied to individual line item appropriations.
5 The rescission 0.65% and was applied to individual line item appropriations. The amounts shown are prior to the rescission.
6 The rescission 0.465% plus 0.59% on the remaining balance and was applied to individual line item appropriations. The amounts shown are prior to the rescission.

VETERAN'S BUSINESS OUTREACH CENTERS STATS (2001-2002-2003)

2001

Outreach Center	Total Trained	Total Counseled	Total All
Florida	1,857	1,994	3,851
New York	1,123	1,428	2,551
TEP	606	478	1,084
Texas	3,220	833	4,053
Total All	**6,806**	**4,733**	**11,539**

2002

Outreach Center	Total Trained	Total Counseled	Total All
Florida	1,764	2,274	4,038
New York	989	1,505	2,494
TEP	606	478	1,084
Texas	985	885	1,870
Total All	**4,344**	**5,142**	**9,486**

2003

Outreach Center	Total Trained	Total Counseled	Total All
Florida	2,736	2,527	5,263
New York	1,160	1,379	2,539
Texas	824	1,539	2,363
Total All	**4,720**	**5,445**	**10,165**

Note: Veteran's Business Outreach Center in California was funded Sept. 30, 2003. No stats available at this reporting time.

FY 2002 RURAL OUTREACH PROGRAM OPTION YEAR 2 AWARDS (PUBLIC)

						SBIR Rural Outreach Program FY 2002			
STATES	AWARD NO.	Name of Recipient Organization	Project Director	E-MAIL ADDRESS	OPTION YEAR 1 AWARD AMOUNT	CONGRESSIONAL MEMBER	GRANTS MANAGEMENT OFFICER	AWARD NUMBER	ADMINISTRATIVE CODE
DELAWARE	SBAHQ-99-R-0020	Small Business Development Center Network, University of Delaware	Clinton Tymes, State Director, One Innovation - Suite 301, Newark, Delaware 19711	Tymesc@udel.edu	$47,222.00	Congressman Michael N. Castle Senator Joseph Biden, Jr. Senator Thomas Carper	Patricia Branch		2404040Z0001
HAWAII	SBAHQ-01-R-0034	High Technology Development Corporation (HTDC)	Janice S. Kato, HTDC, 2800 Woodlawn Drive - Suite 100, Honolulu, HI 96822, (808) 539-3814, FAX: (808) 539-3611	janicek@htdc.org	$25,002.00	Congressman Neil Abercrombie Senatror Daniel Inouye Senator Daniel Akaka	Adrienne Dinkins		2404040Z0010
INDIANA	SBAHQ-99-R-0013	Indiana University	W. Sidney Johnson, Director, Industrial Reseach Liason Program, Indiana University, 501 North Morton Street - Suite 109, Bloomington, IN 47404 (812) 855-6294 FAX: (812) 855-8270	wjohnson@indiana.edu or flynn@indiana.edu	$47,222.00		Adrienne Dinkins		2404040Z0002A
IOWA	SBAHQ-99-R-0009		Mark Laurenzo, Interim Director, Iowa State University, Center for Advanced Technology Development, 151 ASC #2, 1915 Scholl Road, Ames, IA 50011-3041, (515) 294-4644 FAX: (515) 294-9519	laurenzo@iastate.edu or lograsso@iastate.edu	$47,222.00	Congressman Leonard Boswell Senator Tom Harkin Senator Chuck Grassley	Doris Young		2404040Z0003A
LOUISIANA	SBAHQ-99-R-0008	Louisiana Technology Transfer Office	Roy Keller, Louisian Department of Economic Development, 101 France Street, Baton Rouge, LA 70801, (225) 342-5478 FAX: (225) 342-5389	rkeller@mail.ided.state.la.us Cavalier@lded.state.la.us	$47,222.00	Congressman Richard H. Baker Senator John Breaux Senator Mary Landrieu	Doris Young		2404040Z0004
MAINE	SBAHQ-99-R-0012	Maine Development Center	Pat Rice, Market Development Center, One Cumberland Place, Bango, ME 04401, (207)942-6389, FAX: (207) 942-3548	price@emdc.org ralexander@emdc.org	$47,222.00	Congressman Thomas H. Allen Senator Olympia Snowe Senator Susan Collins	Carol Greenfield		2404040Z0005
MONTANA	SBAHQ-99-R-0010	Montana Department of Commerce	Robyn Hampton or Linda Brander, Economic Development Division, 1424 9th Avenue, Helena, MT 59620 (404) 444-4374, FAX: (404) 444-1872	rhampton@state.mt.us lbrander@state.mt.us	$47,222.00	Congressman Dennis R. Rehberg Senator Conrad Burns Senator Max Baucus	Doris Young		2404040Z6000
SOUTH DAKOTA	SBAHQ-99-R-0014	South Dakota SBIR Center	Gary Archambouit, Project Director South Dakota SBIR Center, Dakota State University, 820 North Washington Avenue, Lowry Hall, Madison, SD 57042, (605) 256-5555	Gary Archambouit@dsu.edu	$47,222.00		Adrienne Dinkins		2404040Z0007
VERMONT	SBAHQ-99-R-0011	Vermont Department of Economic Development	Janice St. Onge, Project Director, National Life Building, Drawer 20, Montpelier, VT 05620-0501	jstonge@dca.state.vt.us	$47,222.00	Congressman Bernard Sanders Senator James Jeffords Senator Patrick Leahy	Carol Greenfield		2404040Z0008
WYOMING	SBAHQ-99-R-0023	Wyoming SBIR Initiative, Unviersiy of Wyoming	Jill Kline, SBIR Coordinator, Wyoming SBIR Initiative, 222 South Gillette Avenue - Suite 402, Gillette, WY 82716, (307) 766-3505, FAX: (307) 766-3406	jillkline@vcn.com	$47,222.00	Congressman Barbara Cubin Senator Mike Enzi Senator Craig Thomas	Arvette Leake-Davis		2404040Z0009
	TOTAL				$450,000.00				

FY 2002 RURAL OUTREACH PROGRAM OPTION YEAR 2 AWARDS (PUBLIC)

SBIR Rural Outreach Program FY 2002

STATES	AWARD NO.	Name of Recipient Organization	Project Director	E-MAIL ADDRESS	OPTION YEAR 1 AWARD AMOUNT	CONGRESSIONAL MEMBER	GRANTS MANAGEMENT OFFICER	AWARD NUMBER	ADMINISTRATIVE CODE
DELAWARE	SBAHQ-99-R-0020	Small Business Development Center Network, University of Delaware	Clinton Tymes, State Director, One Innovation - Suite 301, Newark, Delaware 19711	Tymesc@udel.edu	$47,222.00	Congressman Michael N. Castle Senator Joseph Biden, Jr. Senator Thomas Carper	Patricia Branch		2404040Z0001
HAWAII	SBAHQ-01-R-0034	High Technology Development Corporation (HTDC)	Janice S. Kato, HTDC, 2800 Woodlawn Drive - Suite 100, Honolulu, HI 96822, (808) 539-3814, FAX: (808) 539-3611	janicek@htdc.org	$25,002.00	Congressman Neil Abercrombie Senatror Daniel Inouye Senator Daniel Akaka	Adrienne Dinkins		2404040Z0010
INDIANA	SBAHQ-99-R-0013	Indiana University	W. Sidney Johnson, Director, Industrial Reseach Liason Program, Indiana University, 501 North Morton Street - Suite 109, Bloomington, IN 47404 (812) 855-6294 FAX: (812) 855-8270	wjohnson@indiana.edu or flynn@indiana.edu	$47,222.00		Adrienne Dinkins		2404040Z0002A
IOWA	SBAHQ-99-R-0009		Mark Laurenzo, Interim Director, Iowa State University, Center for Advanced Technology Development, 151 ASC #2, 1915 Scholl Road, Ames, IA 50011-3041, (515) 294-4644 FAX: (515) 294-9519	laurenzo@iastate.edu or lograsso@iastate.edu	$47,222.00	Congressman Leonard Boswell Senator Tom Harkin Senator Chuck Grassley	Doris Young		2404040Z0003A
LOUISIANA	SBAHQ-99-R-0008	Louisiana Technology Transfer Office	Roy Keller, Lousian Department of Economic Development, 101 France Street, Baton Rouge, LA 70801, (225) 342-5478 FAX: (225) 342-5389	rkeller@mail.ided.state.la.us Cavalier@lded.state.la.us	$47,222.00	Congressman Richard H. Baker Senator John Breaux Senator Mary Landrieu	Doris Young		2404040Z0004
MAINE	SBAHQ-99-R-0012	Maine Development Center	Pat Rice, Market Development Center, One Cumberland Place, Bango, ME 04401, (207)942-6389, FAX: (207) 942-3548	price@emdc.org ralexander@emdc.org	$47,222.00	Congressman Thomas H. Allen Senator Olympia Snowe Senator Susan Collins	Carol Greenfield		2404040Z0005
MONTANA	SBAHQ-99-R-0010	Montana Department of Commerce	Robyn Hampton or Linda Brander, Economic Development Division, 1424 9th Avenue, Helena, MT 59620 (404) 444-4374, FAX: (404) 444-1872	rhampton@state.mt.us lbrander@state.mt.us	$47,222.00	Congressman Dennis R. Rehberg Senator Conrad Burns Senator Max Baucus	Doris Young		2404040Z6000
SOUTH DAKOTA	SBAHQ-99-R-0014	South Dakota SBIR Center	Gary Archamboult, Project Director South Dakota SBIR Center, Dakota State University, 820 North Washington Avenue, Lowry Hall, Madison, SD 57042, (605) 256-5555	Gary Archamboult@dsu.edu	$47,222.00		Adrienne Dinkins		2404040Z0007
VERMONT	SBAHQ-99-R-0011	Vermont Department of Economic Development	Janice St. Onge, Project Director, National Life Building, Drawer 20, Montpelier, VT 05620-0501	jstonge@dca.state.vt.us	$47,222.00	Congressman Bernard Sanders Senator James Jeffords Senator Patrick Leahy	Carol Greenfield		2404040Z0008
WYOMING	SBAHQ-99-R-0023	Wyoming SBIR Initiative, Unviersiy of Wyoming	Jill Kline, SBIR Coordinator, Wyoming SBIR Initiative, 222 South Gillette Avenue - Suite 402, Gillette, WY 82716, (307) 766-3505, FAX: (307) 766-3406	_jillkline@vcn.com	$47,222.00	Congressman Barbara Cubin Senator Mike Enzi Senator Craig Thomas	Arvette Leake-Davis		2404040Z0009
	TOTAL				$450,000.00				

SBIR Rural Outreach Program grants FY 2001

STATES	AWARD NO.	Name of Recipient Organization	Project Director
ALASKA	SBAHQ-99-R-0021	Alaska Technology Center	Jan Fredericks, State Director, 430 West Seventh Avenue - Suite 100, Anchorage, Alaska 99501 (907) 274-7232
DELAWARE	SBAHQ-99-R-0020	Small Business Development Center Network, University of Delaware	Clinton Tymes, State Director, One Innovation - Suite 301, Newark, Delaware 19711
IDAHO	SBAHQ-99-R-0019	Boise State university - ISBDC	Burt Knudson, Idaho SBDC Technology Connections, 1910 University Drive, Boise, ID 83725-1655, (208) 426-1640 FAX: (208) 426-3877
INDIANA	SBAHQ-99-R-0013	Indiana University	W. Sidney Johnson, Director, Industrial Reseach Liason Program, Indiana University, 501 North Morton Street - Suite 109, Bloomington, IN 47404 (812) 855-6294 FAX: (812) 855-8270
IOWA	SBAHQ-99-R-0009	Center for Advanced Technology Development, Iowa	Mark Laurenzo, Interim Director, Iowa State University, Center for Advanced Technology Development, 151 ASC #2, 1915 Scholl Road, Ames, IA 50011-3041, (515) 294-4644 FAX: (515) 294-9519
KENTUCKY	SBAHQ-99-R-0005	Kentucky Science and Technology Corporation	Kris W. Kimel, President, P.O. Box 1049 or 200 West Vine Street - Suite 420, Lexington, KY 40588-1049, (859) 233-3502, ext 221 FAX: (859) 259-0986
LOUISIANA	SBAHQ-99-R-0008	Louisiana Technology Transfer Office	Roy Keller, Louisian Department of Economic Development, 101 France Street, Baton Rouge, LA 70801, (225) 342-5478 FAX: (225) 342-5389
MAINE	SBAHQ-99-R-0012	Maine Development Center	Pat Rice, Market Development Center, One Cumberland Place, Bango, ME 04401, (207)942-6389, FAX: (207) 942-3548
MISSISSIPPI	SBAHQ-99-R-0003	University of Mississippi	Alice M. Clark, Vice Chancellor for Research and Sponsored Programs, Office of Research and Sponsored Programs, P.O. Box 907, 125 Old Chemistry Building, University, MS 38677, (662) 915-7482, FAX: (662) 915-7577
MISSOURI	SBAHQ-99-R-0018	Curators of the University of Missouri - Graduate School	William B. Simon, Associate Director Research Admin., University of Missouri, 4041 Forest Park Avenue, St. Louis, MO, 63108-2211, (314) 615-6908, FAX: (314) 615-6901
MONTANA	SBAHQ-99-R-0010	Montana Department of Commerce	Robyn Hampton or Linda Brander, Economic Development Division, 1424 9th Avenue, Helena, MT 59620 (404) 444-4374, FAX: (404) 444-1872

NEBRASKA	SBAHQ-99-R-0006	University of Nebraska - Lincoln	Donald Helmuth, 303 Administration Building, Lincoln, NE 68588-0430, (402) 472-6365 (Stephen Frayser (402) 472-4179)
NEVADA	SBAHQ-99-R-0007	Technology Development Assistance Program, Nevada Small Business Development Center - University of Nevada	Sam Males, Project Director, Nevada Small Business Development Center, University of Nevada - Reno, College of Business Administration - 032, Reno, NV 89557 (775) 784-1717 FAX: (775) 784-4337
NORTH DAKOTA	SBAHQ-99-R-0022	Center for Innovation - University of North Dakota	Bruce Gjovig, Director, UND Center for Innovation, Box 8372, Grand Forks, ND 58202-8372, (701) 777-3132 FAX: (701) 777-2339
RHODE ISLAND	SBAHQ-99-R-0004	Rhode Island Technology Development Program	Ken Lewis, Director, RIPTAC, RI Economic Development Corporation, One West Exchange Street, Providence, RI 02903, (401) 222-2601 FAX: (401) 222-2102
SOUTH CAROLINA	SBAHQ-99-R-0015	University of South Carolina Small Business Development Center	John Lenti, State Director, SCSBDC, The Darla Moore School of Business, Columbia, SC (803)777-4907 FAX: (803) 777-4403
SOUTH DAKOTA	SBAHQ-99-R-0014	South Dakota SBIR Center	Gary Archamboult, Project Director South Dakota SBIR Center, Dakota State University, 820 North Washington Avenue, Lowry Hall, Madison, SD 57042, (605) 256-5555
VERMONT	SBAHQ-99-R-0011	Vermont Department of Economic Development	Janice St. Onge, Project Director, National Life Building, Drawer 20, Montpelier, VT 05620-0501
WEST VIRGINIA	SBAHQ-99-R-0016	West Virginia Small Business Development Center	Conley Salyer, State Director, Building 6 - Room 652 Capitol Complex, Charleston, WV, 25305, (305) 558-2960 FAX: (304) 558-0127
WYOMING	SBAHQ-99-R-0023	Wyoming SBIR Initiative, Unviersiy of Wyoming	Jill Kline, SBIR Coordinator, Wyoming SBIR Initiative, 222 South Gillette Avenue - Suite 402, Gillette, WY 82716, (307) 766-3505, FAX: (307) 766-3406
PUERTO RICO	SBAHQ-99-R-0002	Office of Intellectual Property and Technology Commercialization - University of Puerto Rico	Ms. Evelyn Rivera, University of Puerto Rico, P.O. Box 23334, University Station, San Juan, PR 00931-3334, (787) 250-0000, ext. 3123, (787) 763-1342, FAX: (787) 250-6120
WASHINGTON, DC	SBAHQ-99-R-0017	Washington Emerging Technologies Center, Inc.	Darrell Williams, President & CEO, Washington Emerging Technologies Center, 909 E Street, SE - #1, Washington, DC 20003, (202) 547-1825
ARKANSAS	SBAHQ-01-R-0008	University of Arkansas at Little Rock	Janet Nye, State Director, Arkansas Small Business Development Center, 2801 South University Avenue, Little Rock, AR 72204-1099, (501) 324-9043, FAX:
HAWAII	SBAHQ-01-R-0034	High Technology Development Corporation (HTDC)	Janice S. Kato, HTDC, 2800 Woodlawn Drive - Suite 100, Honolulu, HI 96822, (808) 539-3814, FAX: (808) 539-3611

OKLAHOMA	SBAHQ-01-R-0009	Oklahoma Center for the Advancement of Science and Technology	Sherilyn S. Stickley, Director, Technology Division, OCAST, 4545 North Lincoln Blvd. - Suite 116, Oklahoma City, OK 73105-3413, (405) 524-1357 ext. 239, FAX: (405) 521-6501

E-MAIL ADDRESS	FY 2001 OPTION YEAR 1 AWARD AMOUNT	CONGRESSIONAL MEMBER
attac@arctic.net	$80,000.00	Congressman Don Young Senator Ted Stevens Senator Frank Murkowski
Tymesc@udel.edu	$52,500.00	Congressman Michael N. Castle Senator Joseph Biden, Jr. Senator Thomas Carper
jhoge@boisestate.edu	$57,500.00	Pending update from Congressional Liaison Office
wjohnson@indiana.edu or flynn@indiana.edu	$80,000.00	Pending update from Congressional Liaison Office
laurenzo@iastate.edu or lograsso@iastate.edu	$80,000.00	Congressman Leonard Boswell Senator Tom Harkin Senator Chuck Grassley
kkimel@kstc.com	$40,000.00	Pending update from Congressional Liaison Office
rkeller@mail.ided.state.la.us Cavalier@lded.state.la.us	$80,000.00	Congressman Richard H. Baker Senator John Breaux Senator Mary Landrieu
price@emdc.org ralexander@emdc.org	$57,500.00	Congressman Thomas H. Allen Senator Olympia Snowe Senator Susan Collins
vcrsp@olemiss.edu pbrown@olemiss.edu	$40,000.00	Congressman Gene Taylor SenatorTrent Lott Senator Thad Cochran
bsimon@emergingtech.org mmellitz@emergingtech.org	$40,000.00	Congressman Kenny C. Hulshof Senator Christopher Bond Senator Jean Carnahan
rhampton@state.mt.us lbrander@state.mt.us	$80,000.00	Congressman Dennis R. Rehberg Senator Conrad Burns Senator Max Baucus

sfrayser@unl.edu	$40,000.00	Pending update from Congressional Liaison Office
males@unr.edu or rhalbard@prodigy.net	$40,000.00	Congressman Jim Gibbons Senator John Ensign Senator Harry Reid
bruce@innovators.net or steph@innovators.net	$80,000.00	Pending update from Congressional Liaison Office
klewis@riedc.com	$40,000.00	Pending update from Congressional Liaison Office
kmccoy@spar.sc.edu	$57,500.00	Congressman - Vacant Senator Strom Thurmond Senator Ernest Hollings
Gary Archamboult@dsu.edu	$57,500.00	Pending update from Congressional Liaison Office
jstonge@dca.state.vt.us	$80,000.00	Congressman Bernard Sanders Senator James Jeffords Senator Patrick Leahy
csayler@wvsbdc.org lraines@wvsbdc.org	$57,500.00	Pending update from Congressional Liaison Office
jillkline@vcn.com	$80,000.00	Congressman Barbara Cubin Senator Mike Enzi Senator Craig Thomas
evelyn@adam.uprr.pr joan@adam.uprr.pr	$40,000.00	Pending update from Congressional Liaison Office
darrell@wetcinc.com	$40,000.00	
	$1,300,000.00	
	FY 2001 NEW AWARDS	
jmnye@ualr.edu jmmccalliste@ualr.edu	$40,000.00	Pending update from Congressional Liaison Office
janicek@htdc.org	$80,000.00	Congressman Neil Abercrombie Senatror Daniel Inouye Senator Daniel Akaka

sstickley@ocast.state.ok.us dluton@ocast.state.ok.us	$80,000.00	Congressman Frank D. Lucas Senator James Inhofe Senator Don Nickles
	$1,500,000.00	

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2001 FAST AWARD AMOUNT	PROJECT DESCRIPTION
ALABAMA	ALABAMA DEPARTMENT OF ECONOMIC & COMMUNITY AFFAIRS (ADECA)	Russell Moore, Project Manager, 401 Adams Avenue, P.O. Box 5690, Montgomery, Alabama 36103-5690, (334) 242-5294	russellm@adeca.state.al.us	$100,000.00	Training workshops, proposal preparation, newsletters, brochures, website, mentoring network
ALASKA	ALASKA SMALL BUSINESS DEVELOPMENT CENTER	Jan Fredericks, State Director, 430 West Seventh Avenue - Suite 100, Anchorage, Alaska 99501 (907) 274-7232	anjaf@uaa.alaska.edu	$100,000.00	Technical assistance, development of network, Phase 0, outreach and promotion, presentations, conferences, workshops and meetings
COLORADO	REGENTS OF THE UNIVERSITY OF COLORADO - CU BUSINESS ADVANCEMENT CENTER	Karen L. Eye, Director, 5353 Manhattan Circle, Suite 202 Boulder, CO 80303 (303)554-9493 ext. 13	eye@colorado.edu	$100,000.00	Workshops/forums, training, proposal assistance, commercialization assistance
DELAWARE	DELAWARE SMALL BUSINESS DEVELOPMENT CENTER NETWORK	Clinton Tymes, State Director, One Innovation - Suite 301, Newark, Delaware 19711	Tymesc@udel.edu	$100,000.00	Training and education programs, website, counseling, proposal preparation, patent searches, assistance in administrative and infrastructure efforts
GEORGIA	UNIVERSITY OF GEORGIA SMALL BUSINESS DEVELOPMENT CENTER/	Jeff Sanford, Director of Program Development and Quality Assurance 1180 E. Broad Street, Athens, GA 30602-5412, (706) 583-0606	jsanford@sbdc.uga.edu	$125,000.00	Consulting, training, partnerships, networking, technical assistance, workshops, technology and commercialization assistance
HAWAII	HIGH TECHNOLOGY DEVELOPMENT CORPORATION	Janice S. Kato, Manager, Federal Programs, Research & Information 2800 Woodlawn Drive - Suite 100, Honolulu, Hawaii 96822 (808) 539-3814	janicek@htdc.org	$125,000.00	Commercialization assistance program, conferences, courses, seminars, technology transfer, matching grants

IOWA	CENTER FOR ADVANCED TECHNOLOGY DEVELOMENT/IOWA STATE UNIVERSITY	Barbara K. Lograsso, Project Director, 255C ASC #2, 1915 Scholl Road, Ames, Iowa 50011-3041, (515) 294-9938	lograsso@iastate.edu; laurenzo@iastate.edu	$100,000.00	Conferences, courses, seminars, counseling, technical assistance, presentations, website
LOUISIANA	LOUISIANA BUSINESS & TECHNOLOGY CENTER/ LOUISIANA STATE UNIVERSITY	Roy Keller, Project Director, South Stadium Drive, Baton Rouge, LA 70803-6100, (225) 578-7555	r.keller@attglobal.net	$150,000.00	Conferences, workshops, and seminars, counseling/technical assistance, outreach centers, proposal writing assistance, Phase 0 grants awarded
MAINE	MAINE TECHNOLOGY INSTITUTE	Dr. Janet Yancey-Wrona, Director, One Church Street, Gardiner, Maine 04345, (207) 582-4790	jyancey@gwi.net	$150,000.00	Outreach—seminars, workshops, and training sessions, mentoring network, commercialization workshop, technical assistance and training
MARYLAND	MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION (TEDCO)	Dr. Renee Winsky, Deputy Director of Technology Transfer, MD TEDCO, 5575 Sterrett Place - Suite 240 Columbia, MD 21044 (410) 740-9442 Morgan Allyn, Program Manager, Federal Research Funding Opportunities (410) 715-4165; (410) 740-9442	rwinsky@marylandtedco.org; mallyn@marylandtedco.org	$125,000.00	Technical assistance and training, outreach—announcements, mass media, networking
MASSACHUSETTS	MASSACHUSETTS TECHNOLOGY COLLABORATIVE	Robert G. Kispert, Director of Federal Programs, 75 North Drive, Westborough, MA 01581-3340 (508) 870-0312	kispert@mtpc.org	$100,000.00	Outreach, technical and financial information, proposal assistance, business planning assistance, commercialization assistance

MICHIGAN	MICHIGAN SMALL BUSINESS DEVELOPMENT CENTER/STATE HEADQUARTERS/ GRAND VALLEY STATE UNIVERSITY & MICHIGAN ECONOMIC DEVELOPMENT CENTER	Carol Lopucki, State Director, Grand Valley State University, Seidman School of Business, 510 West Fulton, Grand Rapids, MI 49504, (616) 336-7480	lopuckic@gvsu.edu	$100,000.00	Training, database tacking system, website, newsletter, proposal review, counseling, workshops
MINNESOTA	MINNESOTA PROJECT INNOVATION, INC	Pat Dillon, M.B.A. Director FAST, Technology Innovation Center, 111 Third Avenue South, Suite 100, Minneapolis, MN 55401-2551, (612) 347-6751	pdillon@mpi.org	$125,000.00	Workshops and training sessions, technical assistance, client assessment, business and technology assessment, proposal development and review, assistance with grant and contract administration, commercialization assistance, corporate partnering and industry and university partnership
MISSISSPPI	THE UNIVERSITY OF SOUTHERN MISSISSIPPI	Dr. Cecil D. Burge, Associate Vice President for Research, Box 5157, Hattiesburg, MS 39406-5157, (601) 266-5116	Cecil.Burge@usm.edu	$125,000.00	Database of potential companies, conferences, newsletters, workshops, technical and business planning, commercialization assistance
MISSOURI	UNIVERSITY OF MISSOURI OUTREACH EXTENSION/MISSOURI SMALL BUSINESS DEVELOPMENT CENTERS	Max E. Summers, State Director, 1205 Univerisity Avenue - Suite 300, Columbia, Missouri 65211, (573) 882-1348	summersm@missouri.edu	$100,000.00	One-on-one counseling, technical and marketing research, proposal review and preparation, website, promotional and educational material
MONTANA	MONTANA SMALL BUSINESS DEVELOPMENT CENTER & MONTANA DEPARTMENT OF COMMERCE	Ms. Robyn Hampton, State SBDC Director, 1424 9th Avenue, P.O. Box 200505, Helena, MT 59624-0505 (406) 444-3797	rhampton@state.mt.us	$100,000.00	Phase 0 infrastructures designed, proposal review, counseling

NEVADA	THE NEVADA COMMISSION ON ECONOMIC DEVELOPMENT	LeRoy Singleton, Interim Project Director, 108 E. Proctor Street, Carson City, NV 89701, (775) 687-1813	bobs@bizop p.state.nv.us	$100,000.00	Phase 0, workshop, counseling, training
NEW HAMPSHIRE	NH SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF NEW HAMPSHIRE - WHITTEMORE SCHOOL OF BUSINESS & ECONOMICS	Mary E. Collins, State Director, 108 McConnell Hall, Durham, NH 03824-3593 (603)862-2200	Mary.collin s@unh.ed u	$100,000.00	Project Tracking, awards application assistance, technology support, commercialization planning
NEW JERSEY	STATE OF NEW JERSEY SMALL BUSINESS DEVELOPMENT CENTER	Randy G. Harmon, NJSBDC Director of Technology Commercialization, 49 Bleeker Street, Newark, New Jersey 07102, 1-800-432-1832	rgharmon@a ndromeda.rut gers.edu	$100,000.00	Conferences, proposal writing consultants, commercialization and technology workshops, marketing and business plans
NEW YORK	NEW YORK STATE OFFICE OF SCIENCE AND TECHNOLOGY AND ACADEMIC RESEARCH (NYSTAR)	Jason H. Doling, RTDC Program Manager, 30 South Pearl Street, 11th Floor, Albany, New York 12207 (518) 292-5700	jdoling@n ystar.state .ny.us	$125,000.00	Commercialization assistance, transition assistance, workshops and conferences, client information resources and database, website
NORTH CAROLINA	UNIVERSITY OF NORTH CAROLINA SMALL BUSINESS & TECHNOLOGY DEVELOPMENT CENTER (SBTDC)	Lenzie Harcum, Project Director, Technology Development & Commercialization, 5 West Hargett Street, Suite 600, Raleigh, NC 27601-1348, (919) 715-7272	lharcum@sbt dc.org; fast@sbtdc.o rg; sdaugherty@ sbtdc.org	$125,000.00	Workshops, training sessions, conferences, counseling, technical assistance, website, newsletters
OHIO	OHIO DEPARTMENT OF DEVELOPMENT - TECHNOLOGY DIVISION	Karen Shauri-Harsch, Associate Director of Special Programs, Ohio SBDCs - Lead Center, Ohio Department of Development, 77 South High Street, 27th Floor, P.O. Box 1001, Columbus , OH 43216-1001, (614) 466-1876	kshauri@ odod.state .oh.us; Bejohnson @odod.st ate.oh.us	$150,000.00	Commercialization Assistance, State outreach—conferences and meetings, internal management, financial management, and accounting and reporting systems

OKLAHOMA	THE OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY (OCAST)	Sherilyn S. Stickley, Director, Technology Development Division, 4545 N. Lincoln Boulevard - Suite 116, Oklahoma City, OK 73105-3413, (405) 524-1357 ext. 239	sstickley@ocast.state.ok.us	$150,000.00	Pre-proposal reviews, workshops and briefings, one-on-one counseling, Technology Commercialization Assistance Voucher Program
SOUTH CAROLINA	UNIVERSITY OF SOUTH CAROLINA - THE FRANK L. RODDEY SMALL BUSINESS DEVELOPMENT CENTER	Stan Smith, SC FAST Program Director, (803) 732-2308, (803) 777-4942	Lenti@darla.badm.sc.edu . janksmith@sc.rr.com	$100,000.00	Technical, commercialization and financial assistance, workshops and conferences, counseling
TEXAS	NORTHWEST TEXAS SMALL BUSINESS DEVELOPMENT CENTER - TEXAS TECH UNIVERSITY	E. Allen Carrigo, III, Ph.D., Director of Region Operations, 2579 South Loop 289 - Suite 210, Lubbock, TX 79423,(806) 745-3973	a.carrigo@nwtsbdc.org	$100,000.00	Counseling, database, technical assistance, training
VERMONT	Vermont Technology Council - University of Vermong	Dr. Paul D. Hale, Exectuive Director, 106 Carrigan Hall, Burlington, Vermont 05405, (802-656-3119	Paul.Hale@Uvm.Edu	$100,000.00	Phase 0 program, proposal writing and commercialization assistance, innovation and technology forums, websites.
VIRGINIA	VIRGINIA'S CENTER FOR INNOVATIVE TECHNOLOGY (CIT)	Thomas P. Weithman, Project Director, Director, Entrepreneurship Programs, Virginia's Center for Innovative Technology, 2214 Rock Hill Road, Herndon, Virginia 20170, (703) 689-3000	Tweithman@cit.org	$150,000.00	Conferences, workshops, company database, proposal development, technology development, commercialization assistance, advisory service, market and capital access assistance, business development assistance
WASHINGTON	THE WASHINGTON TECHNOLGY CENTER - UNIVERSITY OF WASHINGTON	Mr. Tab Wilkins, Director of Operations, Washington Technology Center, 300 Fluke Hall, Box 352140, Seattle, WA 98195-2140 (206) 543-4116	tabw@exchange.watechcenter.org	$100,000.00	Conferences, proposal writing assistance, website, "Eye-of-the-Investor" Program, technology counseling, innovation assessment sessions

WISCONSIN	UNIVERSITY OF WISCONSIN EXTENSION, WISCIONSIN SMALL BUSINESS DEVELOPMENT CENTER	Erica Kauten, State Director, 432 N. Lake Street, Madison, Wisconsin, 53706-1498, (608) 263-7794	kauten@admin.uwex.edu	$100,000.00	Assistance network, outreach programs, website, commercialization assistance
WYOMING	THE UNIVERSITY OF WYOMING	Dr. William A. Gem, Vice President for Research, Old Main 305, Laramie, Wyoming 82071, (307) 766-5353	willger@uwyo.edu	$125,000.00	Phase 0 program, training programs, commercialization assistance
				$3,450,000.00	

FY 2002 FAST AWARD PROFILES BY STATE

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2002 FAST AWARD AMOUNT	PROJECT DESCRIPTION
ARIZONA	ARIZONA DEPARTMENT OF COMMERCE	Sandra Watson, Project Director, Innovation, Technology and Entrepreneurship, 3800 North Central Avenue, Suite 1500, Phoenix, Arizona 85012, (602) 280-8160	sandraw@azcommerce.com	$100,000.00	Outreach, and marketing, one-on-one counseling, SBIR/STTR workshops, Phase 1 Grant Writing, Phase II Grant Writing and Commercialization, Train-the-Trainers, Mentoring and Guidance Support, Business Advisory Services, SBIR/STTR Proposal Assistance, Technology Transfer Program, and Partnership Development
ARKANSAS	UNIVERSITY OF ARKANSAS @ LITTLE ROCK	Mildred Holley, Consultant Leader, Arkansas Small Business Development Center, 100 S. Main Street, Suite 401, Little Rock, Arkansas 72201, (501) 324-9043, Janet Roderick (501) 324-9043	mxholley@ualr.edu	$100,000.00	Outreach, through TECH Track Program, Phase 0, Web-Based Resources, Training, Mentoring Financial Support and Technical Assistance
CALIFORNIA	DIVISION OF SCIENCE, TECHNOLOGY AND INNOVATION CALIFORNIA TECHNOLOGY, TRADE AND COMMERCE AGENCY	Jesse Szeto, Assistant Secretary Division of Science, Technology and Innovation California Technology, Trade and Commerce Agency 1102 Q Street, Suite 6000 Sacramento, CA 95814-6511, TEL: (916) 327	jszeto@commerce.ca.gov	$100,000.00	Outreach, to underserved client groups, convening and ongoing business development assistance, SBIR/STTR Mentoring and Training
DELAWARE	DELAWARE SMALL BUSINESS DEVELOPMENT CENTER NETWORK	Barry Williams, Director, Technology Assistance Program, One Innovation Suite 301, Newark, Delaware 19711, 302-831 1555	williamsb@lerner.udel.edu	$100,000.00	Training and education programs, website, counseling, proposal preparation, patent searches, assistance in administrative and infrastructure efforts, Mentoring Network, commercialization/market research, seminars/workshops/conferences, networking activities
GEORGIA	UNIVERSITY OF GEORGIA SMALL BUSINESS DEVELOPMENT CENTER/	Jeff Sanford, Director of Program Development and Quality Assurance 1180 E. Broad Street, Athens, GA 30602-5412, (706) 583-0606	jsanford@sbdc.uga.edu	$100,000.00	Consulting, training, partnerships, networking, technical assistance, mentoring, workshops, technology and commercialization assistance
HAWAII	HIGH TECHNOLOGY DEVELOPMENT CORPORATION	Janice S. Kato, Manager, Federal Programs, Research & Information 2800 Woodlawn Drive - Suite 100, Honolulu, Hawaii 96822 (808) 539-3814	janicek@htdc.org	$100,000.00	Commercialization assistance program, mentoring, conferences, courses, seminars, technology transfer, matching grants

FY 2002 FAST AWARD PROFILES BY STATE

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2002 FAST AWARD AMOUNT	PROJECT DESCRIPTION
IOWA	CENTER FOR ADVANCED TECHNOLOGY DEVELOPMENT/IOWA STATE UNIVERSITY	Barbara K. Lograsso, Project Director, 255C ASC #2, 1915 Scholl Road, Ames, Iowa 50011-3041, (515) 294-9938	lograsso@iastate.edu; laurenzo@iastate.edu	$100,000.00	Conferences, courses, seminars, counseling, technical assistance, presentations, website, Phase 0 and mentoring
LOUISIANA	LOUISIANA BUSINESS & TECHNOLOGY CENTER/ LOUISIANA STATE UNIVERSITY	Roy Keller, Project Director, South Stadium Drive, Baton Rouge, LA 70803-6100, (225) 578-7555	r.keller@atiglobal.net	$100,000.00	Conferences, workshops, and seminars, counseling/technical assistance, outreach centers, proposal writing assistance, Phase 0 grants awarded
MAINE	MAINE TECHNOLOGY INSTITUTE	Dr. Janet Yancey-Wrona, Director, One Church Street, Gardiner, Maine 04345, (207) 582-4790	jyancey@gwi.net	$100,000.00	Outreach—seminars, workshops, and training sessions, mentoring network, commercialization workshop, technical assistance and training and MT Seed Grant Program
MARYLAND	MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION (TEDCO)	Dr. Renee Winsky, Deputy Director of Technology Transfer, MD TEDCO, 5575 Sterrett Place - Suite 240 Columbia, MD 21044 (410) 740-9442 Morgan Allyn, Program Manager, Federal Research Funding Opportunities (410) 715-4165; (410) 740-9442	rwinsky@marylandtedco.org; mallyn@marylandtedco.org	$100,000.00	Technical assistance and training, outreach and promotion—announcements, mass media, networking, one-one counseling, conferences, SBIR support to HBCUs, and resource development
MINNESOTA	MINNESOTA PROJECT INNOVATION, INC	Pat Dillon, M B A. Director FAST, Technology Innovation Center, 111 Third Avenue South, Suite 100, Minneapolis, MN 55401-2551, (612) 347-6751	pdillon@mpi.org	$100,000.00	Workshops and training sessions, technical assistance, client assessment, business and technology assessment, proposal development and review, assistance with grant and contract administration, commercialization assistance, corporate partnering and industry and university partnership, and mentoring
MISSISSIPPI	THE UNIVERSITY OF SOUTHERN MISSISSIPPI	Dr. Cecil D. Burge, Associate Vice President for Research, Box 5157, Hattiesburg, MS 39406-5157, (601) 266-5116	Cecil.Burge@usm.edu	$100,000.00	Database of potential companies, conferences, newsletters, workshops, technical and business planning, technology application and commercialization assistance, Phase 0, proposal support, in/out-reach, and mentoring
MISSOURI	UNIVERSITY OF MISSOURI OUTREACH EXTENSION/MISSOURI SMALL BUSINESS DEVELOPMENT CENTERS	Max E. Summers, State Director, 1205 University Avenue - Suite 300, Columbia, Missouri 65211, (573) 882-1348	summersm@missouri.edu	$100,000.00	One-on-one counseling, technical and marketing research, proposal review and preparation, website, promotional and educational material, in/out-reach, commercialization assistance, and Phase 0
NEW HAMPSHIRE	NH SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF NEW HAMPSHIRE - WHITTEMORE SCHOOL OF BUSINESS & ECONOMICS	Mary E. Collins, State Director, 108 McConnell Hall, Durham, NH 03824-3593 (603)862-2200	Mary.collins@unh.edu	$100,000.00	Project Tracking, awards application assistance, technology support, commercialization planning, and mentoring

FY 2002 FAST AWARD PROFILES BY STATE

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2002 FAST AWARD AMOUNT	PROJECT DESCRIPTION
NEW MEXICO	TECHNOLOGY VENTURES CORPORATION	Barbara J. Stoller, Director, SBIR/STTR Outreach, One Technology Center, 1155 University Boulevard, SE, Albuquerque, NM 87106	barbara.j.stoller@lmco.com	$100,000.00	Training, One-to-One Counseling, Outreach, Proposal Writing, Technology Transfer Outreach Platform, E-Newsletter, SBIR Events, mentoring and Phase 0
NEW YORK	NEW YORK STATE OFFICE OF SCIENCE AND TECHNOLOGY AND ACADEMIC RESEARCH (NYSTAR)	Jason H. Doling, RTDC Program Manager, 30 South Pearl Street, 11th Floor, Albany, New York 12207 (518) 292-5700	jdoling@nystar.state.ny.us	$100,000.00	Commercialization assistance, transition assistance, workshops and conferences, client information resources and database, website, networking, expansion of Mentoring, and Enhancement of SBIR Academy services w/ more emphasis on commercialization outreach
NORTH CAROLINA	UNIVERSITY OF NORTH CAROLINA SMALL BUSINESS & TECHNOLOGY DEVELOPMENT CENTER (SBTDC)	Lenzie Harcum, Project Director, Technology Development & Commercialization, 5 West Hargett Street, Suite 600, Raleigh, NC 27601-1348, (919) 715-7272	lharcum@sbtdc.org; fast@sbtdc.org; sdaugherty@sbtdc.org	$100,000.00	Workshops, training sessions, conferences, counseling, technical assistance, website, newsletters, and mentoring
NORTH DAKOTA	CENTER FOR INNOVATION	Brenda Badman, FAST Project Director, P.O. Box 8372, Grand Forks, ND 58202-8372, (701) 777-3132	brenda@innovators.net	$100,000.00	Stimulate University Involvement in SBIR/STTR Projects, Seek-Out New SBIR/STTR Participants, Increase Native American owned businesses participating in SBIR/STTR, Train-the-Trainer, Pre-proposal Review, One-on-One Counseling for Proposal Preparation, Outreach, Mentoring Network, Phase 0 Program, Phase I Proposal Incentive Program, Proposal Prep Workshops,
OHIO	OHIO DEPARTMENT OF DEVELOPMENT - TECHNOLOGY DIVISION	Karen Shauri-Harsch, Associate Director of Special Programs, Ohio SBDCs - Lead Center, Ohio Department of Development, 77 South High Street, 27th Floor, P.O. Box 1001, Columbus, OH 43216-1001, (614) 466-1876	kshauri@odod.state.oh.us; Bejohnson@odod.state.oh.us	$100,000.00	Commercialization Assistance, State outreach—conferences and meetings, internal management, financial management, and accounting and reporting systems, business counseling/referral, program management & operations, pilot projects, mentoring and expansion
OKLAHOMA	THE OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY (OCAST)	Sherilyn S. Stickley, Director, Technology Development Division, 4545 N. Lincoln Boulevard - Suite 116, Oklahoma City, OK 73105-3413, (405) 524-1357 ext. 239	sstickley@ocast.state.ok.us	$100,000.00	Pre-proposal reviews, workshops and briefings, one-on-one counseling, Technology Commercialization Assistance Voucher Program, networking and mentoring

FY 2002 FAST AWARD PROFILES BY STATE

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2002 FAST AWARD AMOUNT	PROJECT DESCRIPTION
PENNSYLVANIA	INNOVATION PHILADELPHIA AND PENNSYLVANIA SMALL BUSINESS DEVELOPMENT CENTERS, BEN FRANKLIN TECHNOLOGY PARTNERS, CATALYST CONNECTION	Richard Genzer, 1500 Market Street, Philadelphia, PA 19102, (610) 617-0520	rgenzer@ipphila.com; rbendis@ipphila.com	$100,000.00	Encourage greater participation in the SBIR programs, Increase the proposal-winning rate, Increase technology commercialization: Needs Assessment, Program Education, Applicant Screening, Applicant Referral, Access to Capital, Business Development, Outreach, Proposal Development, Proposal Evaluation, Training Coordination, and Phase 0
PUERTO RICO	INTER AMERICAN UNIVERSITY OF PUERTO RICO - PUERTO RICO SBDC NETWORK	Carmen Marti, Project Director, Union Plaza Building, 416 Ponce de Leon Avenue, Suite 7, Hato Rey, PR 00918, (787) 763-6811 ext. 224	cmarti@prsbdc.org	$100,000.00	Integrate and facilitate joint efforts with key organizations in the field of science and technology, Identify, develop and promote strategies to facilitate technology transfer and innovation, foster a high-tech entrepreneurial environment, foster the development of the local R&D infrastructure, develop effective technology transfer processes, foster the creation and successes of high-tech business start-ups, stimulate public-private investment in R&D projects and high-tech small business ventures, provide services to entrepreneurs in the following areas: match between needs and interests, business development education, intellectual property protection, orientation about capital access and venture capital, bring access to Market and Commercialization studies and human resources and permit counseling. Program delivery will occur through the following activities: Outreach Training Seminars, Technical Assistance through 1-to-1 Counseling, Mentoring Networking Assistance and Financial Assistance.
TEXAS	NORTHWEST TEXAS SMALL BUSINESS DEVELOPMENT CENTER - TEXAS TECH UNIVERSITY	E. Allen Carrigo, III, Ph.D., Director of Region Operations, 2579 South Loop 289 - Suite 210, Lubbock, TX 79423,(806) 745-3973	a.carrigo@nwtsbdc.org	$100,000.00	Counseling, database, technical assistance, training, mentoring, Boot Camp, teleconferencing, and train-the-trainer
VERMONT	VERMONT SMALL BUSINESS DEVELOPMENT CENTER AT VERMONT TECHNICAL COLLEGE	Don Kelpinski, State Director, P. O. Box 188, Randolph Center, Vermont, 05061-0188, (802) 729-9101	dkelpins@vtsbdc.org	$100,000.00	Phase 0 program, proposal writing and coaching and commercialization assistance, innovation and technology forums, websites, create virtual linkages w/ other incubators, training and education on access to capital, establish mentoring program, and establish Technology position in Upper Valley Region.

FY 2002 FAST AWARD PROFILES BY STATE

STATE	NAME OF ORGANIZATION	PROJECT DIRECTOR	E-MAIL ADDRESS	FY 2002 FAST AWARD AMOUNT	PROJECT DESCRIPTION
VIRGINIA	VIRGINIA'S CENTER FOR INNOVATIVE TECHNOLOGY (CIT)	Thomas P. Weilhman, Project Director, Director, Entrepreneurship Programs, Virginia's Center for Innovative Technology, 2214 Rock Hill Road, Herndon, Virginia 20170, (703) 689-3000	Tweilhman@cit.org	$100,000.00	Conferences, workshops, company database, proposal development, technology development, commercialization assistance, advisory service, market and capital access assistance, and business development assistance
WEST VIRGINIA	STATE OF WEST VIRGINIA SMALL BUSINESS DEVELOPMENT CENTER	Lisa Raines, SBDC Technology Outreach Coordinator, 1900 Kanawha Boulevard East, Capitol Complex Building 6 Room 652, Charleston, WV 25305-0311 (304) 558-2960	lraines@wvsbdc.org	$100,000.00	Increasing SBIR/STTR participation through: Identification, Outreach, Counseling, Capital Access, Proposal Preparation Assistance, mentoring and Phase O
WISCONSIN	UNIVERSITY OF WISCONSIN EXTENSION, WISCONSIN SMALL BUSINESS DEVELOPMENT CENTER	Erica Kauten, State Director, 432 N. Lake Street, Madison, Wisconsin, 53706-1498, (608) 263-7794	kauten@admin.uwex.edu	$100,000.00	Assistance network, outreach programs, website, commercialization assistance, Phase 0, one-to-one counseling, and financial assistance
				$2,700,000.00	

USEAC Participation in 7(a) Lending

USEAC	FY2001		FY2002		FY2003	
	#	$	#	$	#	$
Atlanta	8	$ 2,720,000	12	$ 5,322,582	45	$ 13,411,222
Baltiomre	18	$ 8,043,600	20	$ 10,122,333	60	$ 11,201,500
Boston	37	$ 11,827,911	45	$ 18,134,111	167	$ 34,948,725
Charlotte	13	$ 3,937,500	14	$ 4,765,790	27	$ 10,357,900
Chicago	28	$ 12,613,333	25	$ 10,763,333	78	$ 33,850,264
Cleveland	20	$ 9,297,250	23	$ 7,230,000	74	$ 18,754,000
Dallas	52	$ 17,956,791	58	$ 23,249,914	157	$ 44,223,230
Denver	17	$ 7,361,973	21	$ 10,309,000	53	$ 22,453,800
Detroit	7	$ 1,475,000	5	$ 2,876,000	22	$ 10,477,000
Long Beach	59	$ 30,344,700	73	$ 40,144,011	356	$ 118,037,860
Miami	16	$ 3,680,500	17	$ 6,434,063	140	$ 24,448,000
Minneapolis	12	$ 6,866,333	15	$ 8,016,666	33	$ 15,319,999
NYC	40	$ 12,621,853	46	$ 13,928,592	136	$ 39,487,275
New Orleans	18	$ 9,814,544	11	$ 6,003,000	54	$ 23,960,725
Philadelphia	21	$ 10,094,111	21	$ 10,379,111	41	$ 14,341,111
Portland	6	$ 2,271,000	10	$ 4,320,000	48	$ 11,182,900
San Jose	8	$ 4,450,000	7	$ 6,867,000	74	$ 11,847,000
Seattle	4	$ 348,000	6	$ 1,450,000	31	$ 6,735,200
St. Louis	39	$ 11,816,886	39	$ 15,026,700	83	$ 26,247,522
TOTAL	423	$ 167,541,285	468	$ 205,342,206	1,679	$ 491,285,233

COMMENTS FOR THE RECORD

ZIONS BANK®

A. SCOTT ANDERSON
President and
Chief Executive Officer

February 23, 2004

The Honorable Olympia Snowe
Chairperson
Senate Committee on
Small Business and Entrepreneurship
U.S. Senate
154 Russell Senate Office Building
Washington, D.C.

Dear Senator Snowe:

At Zions Bank we focus on small business lending. We have been lending to small businesses for over 130 years. As you know the small business community is a significant creator of jobs. Over the years we have extended credit to small businesses, which in turn have created thousands of jobs and boosted their local economies. Our affiliate banks in seven western states have also been serving the small business community for many years.

In order to be successful at small business lending, we rely on the various SBA programs: 7a, SBA Express, and 504 programs. With the current condition of the local and national economy, we should not do anything that will hamper the small business community.

We are greatly concerned about the recent funding issues and proposed changes related to the 7a program. It is important to have consistent and dependable funding for the 7a program. The administration has proposed changes that will significantly change the 7a program and reduce our ability to serve the small business market. Reducing the guarantee to 50%, eliminating the "piggyback" provision, and reducing the loan caps will significantly reduce our ability to serve our small business customers. A better solution would be to restore the 7a program to its original structure. This includes a 75% loan guarantee, a "piggyback" provision, and a higher loan cap.

We have found the various SBA programs address the different needs of our customers. To negatively change any of these programs would adversely impact our ability to serve our small business customers differing needs.

We hope you will work to stabilize the SBA 7a program, but not change its original structure. If we can provide additional information for you and your committee, please don't hesitate to contact me.

Sincerely,

A. Scott Anderson

ASA/ap

cc: Senator Orrin G. Hatch
Senator Robert Bennett

Quality • Simplicity • Dependability

Automated Food Systems, Inc.

The Honorable John Kerry
Senate Committee on Small Business Entrepreneurship
304 Russell Senate Office Bldg.
Washington D.D., 20510

February 11, 2004

RE: Hearings on SBA's 2005 Budget – U.S. Export Assistance Centers

Dear Senator Kerry,

In reviewing the recent 2005 budget request submitted by the President, I noticed some disturbing things in reference to SBA's deliverance of assistance to small business exporters in America. The SBA's 2005 budget request has eliminated the line item funding for its participation in the U.S. Export Assistance Centers (USEAC). The narrative in the budget makes it clear that SBA intends to deliver trade finance assistance to small business exporters and lenders desiring to learn how to participate in SBA's trade finance guarantee programs through Small Business Development Centers, Women's Business Centers, SCORE and the SBA District Offices. **We feel the elimination of SBA's participation in the USEACs and the elimination of SBA's International Trade Finance Specialists providing technical assistance to lenders and exporters would adversely impact access to capital by American exporters.**

District Export Councils (DEC) are organizations of leaders from the local business community, appointed by the Secretaries of Commerce, whose knowledge of international business provides a source of professional advice for local firms.

United States Export Assistance Centers (USEAC) are multi-government agency offices housing two or more government agencies, which have programs to assist U.S. small and medium sized exporters (SME) in gaining entry to or expanding their export markets. The main agencies in these offices are the Commercial Service of the Department of Commerce, the SBA, and in some cases Ex-Im Bank. This one-stop shop approach to assisting exporters has been very successful and has made for easy access to the all the main export agencies by American exporters.

The DECs have worked hand in hand with the government agencies housed in the USEACs to assist American companies in entering or expanding their export markets. The SBA USEAC representatives assist SMEs in obtaining essential working capital to facilitate exporting. They are also experts in other government and private sector financing and will make the appropriate referral. In FY 2003, SBA USEAC Representatives facilitated $488.0 million in loans to over 1600 American exporters. Those exporters have reported over $1 billion in export sales.
Small Business Development Centers (SBDC), SCORE, and Women's Business Centers, and even SBA District Offices may provide useful technical assistance as business generalists, but unfortunately they do not have the skill set or technical expertise in trade finance. Even SBDCs, which specialize in International Trade, lack personnel trained in trade finance. And, the limited budgets of these organizations would not provide sufficient funds to supplement their resources in this area.

1034 Explorer Street • Duncanville, Texas 75137 • U.S.A. • Tel. +972 298 5719 Fax +972 709 6191
URL:http://www.afstexas.com

The North Texas District Export Council feels it would be a tragic mistake to eliminate SBA's Trade Finance Specialist and the SBA participation in the USEACs. We are asking for your support in retaining the funding for SBA's USEAC participation.

Access to working capital is more difficult for small business exporters. Today the U.S. has a record breaking trade deficit. More than 96% of the U.S. exporters are small or medium sized businesses. It is essential that the U.S. government provide assistance to SMEs to increase exports, which in turn, creates jobs and assists with the trade imbalance. The SBA USEAC Trade Finance Specialists are highly trained and focused on providing that sorely needed access to capital needed by small business exporters.

Thank you for your consideration of this matter.

Sincerely,

Wanda D Nelson
V.P. /Co-owner
Automated Food Systems, Inc.

B.A.A.G.G.L.

BAY AREA ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

March 1, 2004

Via Facsimile (202) 224-8525

The Honorable John Kerry
304 Russell Senate Office Building
Washington, D.C. 20510-2102

Dear Senator Kerry:

The Bay Area Association of Government Guaranteed Lenders (BAAGGL) is a non-profit corporation headquartered in Northern California that is dedicated to advancing the development and growth of the SBA Loan Programs.

The current SBA proposal to modify the SBA 7(a) loan program will:

- Reduce SBA lending volume
- Reduce SBA lending activity by community and rural banks
- Have a greater negative effect on the smaller businesses which already have the hardest time accessing capital
- Result in higher program costs that will be passed along to the small businesses

The key component of the SBA proposal is to fully fund the program by moving the 7(a) program to a zero subsidy model. The primary method to accomplish this would be to reduce the guaranty on 7(a) loans to 50%. In order to gauge the impact of the SBA's proposal to reduce the guaranty on the 7(a) loan, BAAGGL recently conducted a survey of our 85+ members to determine the impact that some of the proposed changes would have on their ability to deliver the SBA 7(a) loan. Based on the results, *it is highly likely that some of the proposed changes would severely impact the ability for Northern California lenders to provide access to capital for the region's small businesses.*

Recent Lender Survey:

Based on a survey conducted over the past week, our members say that the businesses that currently have the toughest time accessing capital would be the same business that would be hardest hit if a reduced guaranty were in place. In addition, the perception that lenders are 'abusing' the program by forcing borrowers into using a more lender-lucrative piggyback loan structure is incorrect. Finally, increased costs to the program will be passed on to those borrowers that can least afford it.

Our lenders stated that:

- For the smaller loans ($250,000 and less) that they funded last year, they would have **turned down over 70%** of them if the guaranty had only been 50%
- Of the loans over $250,000, the banks would have declined approximately 45% of them with a lower guaranty.
- Only 25% of the lenders made use of the piggyback loan program last year
- Of those lenders that did use the piggyback program, approximately 20% had a formal bank policy to use the program only for loans less than a certain dollar amount or when the request was not eligible for a 504 loan
- The vast majority of the surveyed lenders (78%) used the 7(a) program primarily for non-Real Estate transactions
- Half of the respondents stated that the current uncertainty within the program has halted any expansion of their SBA lending activity

Lower Guaranty = Increased Loans?

The SBA believes that by reducing the guaranty on 7(a) loans, more loans will ultimately be done. Based on our discussions with both community banks and nationwide lenders, this does not seem to be the case. Currently one of the nation's largest SBA lenders, an active user of the Express program, will not process loans over $150,000 - even though those loans are already SBA*Express* eligible. It does not seem plausible to believe the lenders will continue to remain as active in the program even though the risks increase for the bank.

John Kerry
March 1, 2004

The banks that are the most active in the SBA*Express* program are primarily the nationwide banks that process this SBA pilot program using credit scoring models. Smaller community banks have neither the market share nor the resources available to properly administer a credit scored program. However, it is these same smaller community banks that have remained active users of the traditional SBA program year in and year out.

Also, the credit scoring models work best on safer consumer-type borrowers, namely those that already have a steady income, good credit and a proven track record. This type of borrower does not require an 85% guaranty in order to get their loan approved. However, the businesses that are just starting off and trying to grow their company or may have had a rockier start, simply will not qualify for a 50% guaranteed loan. If we want to continue providing capital to the underserved community, a full guaranty is necessary.

At a lender roundtable session held with Ronald Bew in San Francisco on February 26, 2004, the lenders were consistent in their comments that a reduction in the guaranty on the loan would severely limit their usage of the program with one lender stating unequivocally that they would discontinue their 7(a) lending program.

Increased Fees to Small Businesses

The SBA states that their proposal would result in a reduction in fees to the borrowers and the lenders. Based on our understanding of how the subsidy model is calculated, we believe that the proposed changes would actually result in a higher fees. The subsidy model is ultimately a function of losses within the loan program and these losses are impacted by both default rates and recovery rates.

As evidenced by the success of the zero subsidy 504 loan program, real estate loans have by nature a lower loss rate since they are generally made to more seasoned businesses and have a more substantial collateral position. While BAAGGL applauds SBA's success at reducing the average size of the SBA loan program, we feel it is vital to remember that it is the fees and the lower loss rate realized on the larger 7(a) loans that assist in subsidizing the 7(a) program. By reducing the number of larger loans, which not only pay a disproportionate higher loan fee but also tend to have lower default rates and better recovery rates, higher fees will have to ultimately be charged in order to fund the program.

Our survey points out that these higher fees will most likely be passed along to the small business. If lenders are unable to pass the cost along, they will simply stop doing 7(a) loans as they become cost-prohibitive for the bank.

As Ronald Bew pointed out in his testimony to Congress last year, the SBA 7(a) loan program is a key producer of jobs in the US economy with a new job created for every $32,000 lent. With our economy still in a jobless recovery, continued Congressional support of one of this vital program is critical.

Attempts for short-term fix of the problem at the expense of the long-term viability of the program will cripple a government program that just had its 50th Anniversary celebration. The administration is proposing that drastic changes be considered without significant analysis, debate or discussion with the public or its lending partners. The pending proposal is vague on the time frame and magnitute of the changes.

Please do not allow the program to be crippled. BAAGGL is asking that you not support a 50% guaranty program. In addition, while some increase in fees might be warranted to assist in further subsidizing the loan program, the SBA 7(a) program is vital to the nation's small businesses and should not become a zero subsidy program. We need to make sure this program is around long after our watch of the program has ended.

Sincerely,

Ralph Barnett
President

Community South

Small Business Lending Division
625 S. Gay Street, Suite 450
Knoxville, TN 37902
Phone: (865) 546-1176
Fax: (865) 546-9726

February 24, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Attn: Sarah Martin
VIA FACSIMILE 202-224-4885

Dear Senator Snowe:

Please find below my statements for the record on why it is imperative that SBA reinstate the 7(a) program to its historical structure and provide adequate funding to meet increasing loan demand:

1. The 7(a) program is much more flexible than the 504 program and provides not only fixed asset financing but also critical working capital and refinancing funds where the 504 program cannot.

2. The capping of 7(a) loans at $750M has a definite negative impact on small businesses in need of access to capital for real estate acquisition and expansion purposes.

3. The capping of 7(a) loans also has a negative impact on a borrower's ability to refinance its debts to provide internally generated working capital for future growth. By being able to refinance debt through the SBA, a borrower will often times save up to 40% on it monthly cashflow. This is cash that can be poured back into the business to fund future growth and jobs.

4. The loan volume that was denied when SBA shut the program down in January, 2004 reportedly exceeds $500MM thereby demonstrating the demand for access to piggyback loans and loans over $750M.

5. If the Administration moves forward with the proposed overhaul of the 7(a) program into one which closely resembles the SBAExpress program with 50% guaranties, the small business community will be grossly underserved as the major 7(a) lenders will move out of the program leaving it to the large national banks (Bank of America, Wells Fargo) and super-regionals who are only interested in funding very small SBA loans to meet CRA requirements. These institutions are in SBA lending one day and out the next. Therefore, the program and its recipients become very vulnerable to the credit whims of the large banks.

6. We utilize the 7(a) program for startup companies, growth companies and mature-declining companies who are re-inventing themselves. Furthermore, we use the 7(a) program for single-purpose properties such as motels, convenience stores and car washes—industries that struggle for access to loan funds. In general, these loans exceed $750M.

7. The lending institutions that have devoted the time and manpower over the years into learning and supporting the SBA and its programs are the very ones that are being penalized by the proposed changes. Furthermore, every small business in America is going to be effected by the restriction of access to capital.

8. The 7(a) program is one of the few government programs that generates a measurable impact on the growth of small businesses nationally, all for a 1.06% subsidy.

9. The lenders are not opposed in general to a zero subsidy or reduced subsidy program; however, it must be done in a manner that maintains the integrity of the program and the marketability of the program for the lenders to its customers.

Thank you for being such an advocate for small businesses everywhere.

Sincerely,

Dwight Bateman
Executive Vice President

FIRST BANK OF THE SOUTH

February 24, 2004

The Honorable Olympia J. Snowe
United States Senate
154 Russell Senate Office Building
Washington, D.C. 20510-1903

VIA FAX: 202-224-1946

RE: Statement for the Record – SBA FY 2005 Budget Hearing
Small Business Administration 7(a) Loan Program

Dear Senator Snowe:

I am writing in concern about the recent actions of the SBA and the proposed changes to the SBA 7(a) loan program for FY 2005. The SBA claims it has run out of money for its flagship 7(a) loan program, when in fact, the shortage is due to the Administration's inadequate request for funding for the 2004 FY. Knowing that loan demand was $11.3 billion in FY 2003, even with a loan cap of $500,000 for nearly half the year, the administration only requested a program level of $9.3 billion. Why? Is this how the administration wishes to destroy one of the most successful loan programs for small business? Has anyone truly but a number on the return that this program has provided to this country in the form of jobs, tax revenues, growth, etc.? It would be hard to measure. But regardless, the Administration is trying to continue the damage with the proposed changes to the program for FY 2005. With the proposal to raise guaranty fees, lender service fees and directing all loans through the Express Program (maximum guaranty of 50%), small business will be seriously impacted in their ability to access capital. As a result, fewer lenders will participate in the program and the ability to sell loans into the secondary market will be greatly impacted. How can this Administration be "pro business" when it is continually cutting the one program that gives back so much. **It is time for the Administration to get it right.** Restore the 7(a) loan program to the appropriate loan demand for the 2004 and 2005 FY.

I request your support in restoring the SBA 7(a) loan program to the appropriate levels and to keep open the access too much needed capital for our small businesses.

Thank you for your time with this matter.

Sincerely,

J. Frayne Bentley
Senior Vice President

Lawrenceville
2230 Riverside Parkway
Lawrenceville, Georgia 30043
770-237-0007

Johns Creek
6600 McGinnis Ferry Road
Duluth, Georgia 30097
770-476-9797

Embry Hills
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The Veterans Corporation
Capital • Training • eCommerce • Services

Martin A. Berkowitz
COO & Interim CEO

11 February 2004

Committee on Small Business & Entrepreneurship
428A Russell Building
Washington, DC 20510

Chairman Snowe, Ranking Member Senator Kerry and Committee Members

It is the position of The National Veterans Business Development Corporation that the Small Business Administration's Office of Veteran Business Development has performed their mission in an exemplary manner. The position of the Associate Administrator for Veterans Business Development was established by the same law that created the Corporation and we have worked closely together on numerous veteran issues and services, ever since.

Our strong relationship has been evidenced by our participation in several joint veteran outreach efforts. We have partnered to sponsor scholarships for Veterans enrolled in the Veteran Entrepreneurial Training program and to fund SBDCs in providing similar training efforts.

The same law also established the SBA Advisory Committee on Veterans Business Affairs that reports to the President, the Congress, the Administrator of the U.S. Small Business Administration and the Associate Administrator for Veterans Business Development. The committee was formed this year and has appointed sub-committees. In fiscal year 2004 we will begin developing with them a comprehensive plan for joint public-private sector efforts to facilitate growth and development of Veteran small business concerns. We look forward to working with the committee on this worthwhile effort.

Mr. William Elmore, the Associate Administrator for Veterans Business Development and his office are very dedicated and responsive to Veteran needs and in our view deserve your continued support.

Very respectfully,

Marty Berkowitz

Martin Berkowitz
COO & Interim CEO

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EAGLEBANK
A NEW PERSPECTIVE ON BANKING

February 24, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business & Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Dear Madam Snowe:

Please allow me to express our concerns as they relate to the administration of the SBA 7(a) loan program. In light of current and projected loan demand, the recent program suspension was simply a bad business decision. From a banking perspective, it increases the risk exposure for financial institutions and from a consumer perspective it demonstrates total disregard for the growing role small businesses play in the success of our national economy.

The small business market has become a significant contributor to the prosperity of our nation due to ever-increasing sales and profits. If the ability for this market to continue expanding through the means of a $750,000 loan cap and/or higher borrower fees is denied, the foundation of economic strength upon which we are rebuilding our economy will erode thereby increasing the likelihood and contracting the timing of the next recession.

Furthermore, the founding principle behind the program is the government's level of commitment which is reflected through the guarantee. Any proposal to reduce the current 75% guarantee to 50% should be viewed as an unacceptable retraction of the government's commitment both to the banking industry and small business market.

These proposals to change the SBA 7(a) loan program will have widespread negative impact well past what we currently see before us. As a community banker and as a consumer, I urge you not to support these proposals. Thank you for your consideration.

Sincerely,

Jennifer Biasetti

Jennifer Biasetti
Sr. Vice President

cc: Senator John Kerry, Massachusetts
Representative John Markey, Massachusetts

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Billy Bowers
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Ph. 865-947-1689

February 23, 2004

The Honorable Olympia J. Snowe (Via Fax)
Chairman
Senate Small Business Entrepreneurship Committee
Washington, DC

RE: Small Business Administration (SBA)

Ms. Snowe:

I am writing to you regarding the recent issues with the SBA. Particularly, the recent implementation of a $750,000 cap on SBA loans and the elimination of piggy back transactions.

The past 3 years of my banking career has been with lenders that are devout SBA lenders. My current employer is also a big SBA lender and I work in a department with over 25 employees solely devoted to SBA lending. Our borrowers/clients are various small business owners and entrepreneurs located in the eastern half of the United States. As a result, the recent changes in SBA policies has created a hardship on myself, my associates and our small business customers.

Most of our clients are owners/prospective owners of single purpose properties such as motels and convenience stores which have a high success rate with SBA. Many big bank lenders will not finance these types of businesses so the borrower must resort to other types of financing which typically involves the SBA. These loans are generally in excess of $750,000.

We have been encouraged to use the SBA 504 program for these large transactions but this poses many other problems. The 504 program is for fixed asset financing only with no allocations in the project for short term needs such as inventory, franchise fees or working capital. Furthermore, the 504 program does not allow for refinancing of long term debt which prevents the existing business owner from expanding their business. For some borrowers, the savings from refinancing are large and can be plowed back into the business for needed capital and growth. In addition, a 504 loan has an extremely large prepayment penalty (10 year declining prepayment penalty) which again hurts the business owner and 504 customer when expansion funds are needed. These large prepayment fees tend to keep the borrower from refinancing or expanding due to the expense involved.

The large amount of SBA demand has been skewed somewhat lately due to the emergence of the SBA Express product. This is a popular product for many large banks who generally use the program for loans that could be granted on a conventional basis. This requires much of the allocated and budgeted SBA dollars. Additionally, these loans only require a guaranty fee from the borrower of 1% for loans up to $150,000 (where the majority of loans fall under SBA Express). My bank previously had an average loan in excess of $750,000 which generates a 3.5% fee to the SBA. Therefore, the SBA Express product has increased the number and dollar of loans but generates a lower fee. The SBA Express product is good for small business but is hurting the other small business owners of single purpose properties who need access to capital as well.

The non-piggyback structure that is currently in place also hurts these single purpose borrowers as most loans are in excess of the $750,000 cap and the $1,333,333 limit that most lenders use. This $1,333,333 is the maximum SBA loan amount a lender can make and still attain the 75% SBA Guaranty. The piggy back structure is needed to allow access to first mortgage capital in conjunction with SBA 7(a) loans. Otherwise, these borrowers would not be able to obtain the funds needed for their special projects that can easily exceed $2,000,000.

Ms. Snowe, the small business community has been the backbone of America for many years and employs more individuals than the largest of U.S. corporations. If the job of Washington is to keep the economy headed in the right direction, why then cut back funding for the small business sector? This hurts business expansion and employment, which in turn hurts the economy.

Please do everything within your power to see that the SBA 7(a) loan cap is lifted along with the piggy back moratorium that is currently in place. The SBA Express and 504 programs are good programs but are not adequate for all types of small business owners. The 7(a) program needs to be reinstated to normal levels to make this happen. Please feel free to contact me should you have any questions or wish to discuss these issues further.

Sincerely,

Billy Bowers
865-947-1689 (home)
865-546-1176 (ext. 227) (office)
865-679-1689 (mobile)

Statement of Sen. Conrad Burns
Senate Committee on Small Business and Entrepreneurship
February 12, 2004

I first would like to thank Chairwoman Snowe for her leadership on this Committee. It is important to remember to the mission of the Small Business Administration is to encourage and promote small business growth and development. However, I must admit that the recent actions taken by the SBA does not appear to me to be consistent with that mission.

I know that many Montanans benefit from the SBA presence in the state, and I appreciate all of the hard work of their employees. However, the actions taken by senior leadership lead me to question the overall intent of the SBA. For example, the recent decision to move all liquidation officers to Herndon, Virginia angered not only the employees affected, but also several banks who had continually worked with them. I look forward to seeing the SBA's savings from this move. My instinct tells me that the dollars saved is minimal in comparison with the negative reputation the SBA gained from this transaction.

I am troubled by the SBA's FY2005 budget, which drastically changes or totally eliminates essential programs. The request for funding SBDCs is lower than what was granted last year. The Federal and State Technology and the Rural Outreach programs were zeroed out. I will continue to examine these decisions, and I look forward to working with Administrator Barreto as we develop a workable SBA budget that keeps the goals of the SBA in mind.

Senator Cantwell's Comments
For the Committee on Small Business and Entrepreneurship's
Small Business Association (SBA) Budget Hearing

Thursday, February 12, 2004
9:30 a.m.

Thank you Madam Chair and thank you Administrator Barreto for joining us this morning.

Small businesses form the backbone of my state's economy and their success is critical to the economic growth of this country. Indeed, our nation's small businesses are responsible for generating seventy-five percent of all new jobs in this country.

As a proud member of this committee, which is dedicated to helping small businesses create jobs, I am a strong supporter of the federal government working as a partner to support small businesses in this country.

As we all know, starting a business is often a daunting task. Finding capital, developing markets, and accessing procurement contracts is difficult for many entrepreneurs, particularly from those communities that have been historically disadvantaged.

I am a strong believer in the mission of the U.S. Small Business Administration and its work as a lending partner and its other programs to provide various products and services to America's small businesses and entrepreneurs, including assistance to women, minorities and veterans.

History has demonstrated that the funding that we have provided for SBA to support small businesses has been one of the better investments that our government has made, contributing to the small business growth and sustainable jobs around the country.

Indeed, our continued support for the successful SBA programs is exactly what our country needs to encourage strong growth.

Mr. Barreto, I have repeatedly heard this Administration maintain its support for small businesses, and highlight the priority of economic growth.

That is why I find it so utterly baffling that this Administration continues to send SBA budget requests to the United States Congress that seem determined to eviscerate the principal federal agency focused on providing assistance for this nation's job creators, small business.

This budget request for Fiscal Year 2005 is an affront to small businesses and entrepreneurs around the country that depend on the SBA and its programs for assistance.

Altogether, the Administration's budget proposes a fifteen percent cut in SBA's budget, which is the fourth year in a row that the Bush Administration has proposed cuts to this important agency – during the Bush Administration the SBA budget has been decreased 24.7%.

This reduction is a brutal attack on the SBA mission, particularly in its loan and investment programs, its Women Business Centers, its Native American programs, its export assistance activities and its procurement assistance operations – all of which provide valuable help to small businesses getting off the ground.

7(a) Loan Guarantee Program

As we all know, the 7(a) program is, in many cases the only option that many of our country's entrepreneurs have in accessing the capital necessary to get their small businesses off the ground. However, in this budget, the Administration is not strengthening the program; in fact, it is weakening it.

Although this Administration claims a thirty percent increase in program levels and a funding structure that will add stability and independence to the program due to its self-sufficiency and independence from annual appropriation, the real effect of the budget is found in the fee increase of $133 million on small businesses and small business lenders (based on last year's subsidy rate of 1.06%).

This is simply wrong and it will preclude many small businesses from being able to access capital – preventing job growth.

Yet, I must say it is not surprising. The Administration has, unfortunately, demonstrated a pattern that is undermining this important program.

In Fiscal Year 2002, the President eliminated all funding and shifted the cost to borrowers and lenders; in FY2003 the President cut the program in half; and in FY2004 the President under-funded the program, leading to a shutdown of the program and the turning away of over 2,000 small businesses seeking financial assistance with their endeavors. Further, the Administration's decision to change the subsidy rate from 1.02% to 1.06%, precluded $375 million in loans, cutting out as many as 1,500 small businesses from access to working capital.

As if that were not enough, the Administration is now proposing to double fees for the business community due to a separate and additional subsidy rate for loans sold on the secondary market, which was proposed in the FY2005 budget request. Although the rate is set at a "zero subsidy rate" for FY2005, this rate could increase over time and there are no assurances that the Office of Management and Budget will be transparent or straightforward in designing and establishing the subsidy rate in future years.

Microenterprise

I was also particularly concerned that the Administration is demonstrating such a disregard for the SBA's microcredit programs, which provide funding to the most needy small businesses. In the FY 2005 budget request, all three programs for micro-enterprise have been eliminated (Microloans, Microloan Technical Assistance, and PRIME). This is a mistake, particularly with regards to the Microloan program of loans and technical assistance, since SBA's mission is to fill the financing gaps of the private sector, and provide technical assistance, these programs are still greatly needed.

Non-credit Programs and Entrepreneurial Development

I am also concerned about this Administration's apparent commitment to eviscerating the programmatic functions of the Small Business Administration. Of the twenty of these SBA programs funded in FY2004, half of them (ten) have been cut in FY2005, including the U.S. Export Assistance Centers and the Native American Outreach Program. Three programs received cuts, including the Women's Business Centers. And the remaining seven programs have been flat-funded in FY2005.

Women's Business Center (WBC) Programs.

I am very disappointed that the President's budget continues to deprive the Women's Business Center program of the funding necessary to continue its important work in reaching out to women and other disadvantaged communities.

This budget proposes cutting the Women's Business Center (WBC) program from its fiscal year 2004 level of $12.5 million to $12 million - $1.5 million short of projected funding needs for FY2005 – projections based on the Senate-passed SBA reauthorization bill, which would extend the existing centers and fund the centers the SBA opened last year.

Furthermore, this budget fails to address the sustainability grants crisis. If this program is not extended, many centers may be forced out of the program, with fewer centers forced out/running on close to a 50%-cut in grants. And, in spite of the flat-funding, the SBA expects the WBCs to take on several new tasks – and absorb the clientele of ten non-credit programs terminated by the SBA's proposed budget. My state of Washington has two WBCs – one that is already in sustainability – and I will be working hard to increase funding for this important program.

Native American Outreach

The SBA has also played an important role in assisting small business growth for entrepreneurs in our tribal communities, who have historically been disadvantaged in accessing capital and markets.

Yet, this program has been cut and the Administration expects that the Women's Business Centers will take on this program – yet this expectation is ridiculous given the fact that the WBC's are already overworked and the Administration cuts the WBC funding for Fiscal Year 2005. I join the Native American Business Network in opposing this proposal and urge the Administration to reconsider its position and will fight to increase funding for this program.

U.S. Export Assistance Centers

I am also extremely disappointed that the Administration is proposing to eliminate the U.S. Export Assistance Center (USEAC). The future of the global economy is in foreign markets, and small businesses need to develop in-roads into these markets to sustain strong business growth.

As we all know, small businesses face particular challenges in developing and accessing export opportunities, which is why the USEAC centers have been so important in promoting small business growth. In FY2004, this program received $1.5 million. In FY2005, this program will receive no funding, essentially removing the program – I am personally committed to making sure that this does not happen.

Small Business Procurement Assistance

In the past, a traditionally valuable source of small business revenues have come through federal government procurements. This committee has worked hard to ensure that our small businesses, especially disadvantaged businesses, are given a fair shot at federal contracts – particularly as we have seen the dominance of a small number of prime contractors seem to squeeze out small businesses.

Yet, instead of helping small businesses in this area, the Administration seems dedicated to cutting those programs that support small business access to government procurement. The SBA has cut the 7(j) Technical Assistance, which provides much-needed technical assistance to 8(a) minority-owned companies, by approximately 25% (a reduction of $479,000); the HUBZone program funding has been reduced if not eliminated. (FY2004: $1.979 million); and the small disadvantaged business (SDB) program has been flat-funded, which translates into a funding cut because there is no adjustment for inflation.

Also, this budget provides no additional funding for the procurement center representatives (PCRs). Instead, the SBA wants to implement an on-line screening process, thus removing PCR's ability to conduct "on site" visits and inspections and will remove their local knowledge of their niche in the marketplace. This action runs counter to the SBA reauthorization legislation passed by the Committee and the full Senate requiring each state to have its own PCR, in addition to the current 47 center representatives.

Conclusion

Altogether, Madam Chair, I believe that this committee has a lot of work to do to fight the Administration's budget proposals in a way that actually help our country's small businesses.

We cannot sit by and let this important agency and its small business programs melt away due to a failure to provide adequate funding and direction.

Our nation's small businesses and our country's economy depend on it.

TMAC
TEXAS MANUFACTURING
ASSISTANCE CENTER

February 11, 2004

Honorable John F. Kerry
Ranking Member of Senate Committee on
Small Business & Entrepreneurship
424B Russell Bldg.
Washington, DC 20410

Dear Senator Kerry:

We have been advised that there is a Committee hearing on Thursday, February 12th to consider the SBA's ***BusinessLINC*** program. The Texas Manufacturing Assistance Center (TMAC), the NIST/MEP affiliate in Texas, partners with the Fort Worth Business Assistance Center (BAC) and its Women's Business Center (WBC), administrators of our local ***BusinessLINC*** program. TMAC accepts referral customers from the BAC and the WBC, participates annually as a sponsor in their Entrepreneur Expo and in all procurement business matchmaking events.

We find ***BusinessLINC*** to be a valuable tool in matching small business owners with corporate mentors in the areas of budget, finance, marketing and procurement. This past week we disseminated a listing of ***BusinessLINC*** matchmaking mentor participants to our small business mailing lists and the have received a large number of requests for more information on how to participate. ***BusinessLINC***, for the second year, is an integral component of the Fort Worth Women's Business Center's Entrepreneur Expo (see attachment regarding both the 2003 and 2004 events).

The success of BusinessLINC has been demonstrated through its positive results. Within the first nine months of the program, ***BusinessLINC***-Fort Worth had achieved:

- 26 new contracts totaling $30,510,841
- 129 new customers
- 40% increase on total revenues of $4,053,000 which was a 30% increase over the goal
- created 246 new jobs
- 20% productivity increase with 55 new marketing plans completed
- 15% profitability increase
- 20% financial performance improvement
- $28,838,034 in small business loans
- 450 participating small businesses
- 50 participating large businesses
- 281 minority owned participating companies

Total performance to date is even more impressive. A single performance measure – contracts awarded to small businesses – demonstrates over a $254 to $1 return on investment! In addition to the time contributed by the corporate mentors, the program has generated over $200,000 in in-kind donations from local businesses. Small businesses are now enabled to partner with major corporations in the DFW Metroplex and include companies such as Lockheed Martin Aeronautics, Bell Helicopter/Textron, Burlington Northern Santa Fe Railroad and Pier 1 Imports. All are pleased with the success and have agreed to continue their participations.

BusinessLINC plays a key role in promoting opportunities for small businesses. We hope the Committee will favorably consider SBA reauthorization of this highly effective and efficient government program.

Sincerely,

Drew Casani
Director, Texas Manufacturing Assistance Center

The University of Texas at Arlington
Automation & Robotics Research Institute
7300 Jack Newell Blvd. South, Fort Worth, Texas
http://arri.uta.edu • 817-272-5922 • (F) 817-272-5977 • www.tmac.org

BUYER:	Northrop Grumman Mission Systems
PROJECT INITIATION:	3/5/02
PROJECT(s):	Request for S. AZ vendors to supply cables and harnesses, hardware kitting, and metal fabrication for the FBCB2 Project. Subsequent projects required vendors in the areas of shipping pallets, armor plate fabrication, and assembly.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 20MM+ (all projects)
CONTRACT AMOUNT:	$ 1,349,372 (to date)
VENDOR PROFILE:	Prefer established companies with proven experience in military product production. N-G (originally TRW) is very price conscious and has well-developed relationships with vendors of record.
VENDORS SUBMITTED:	35 (to date)
VENDORS CONTRACTED:	3 (several follow-on contracts)

DESCRIPTION: TRW (now Northrop Grumman) learned of BusinessLINC in its infancy. Most of its suppliers for these projects listed were in California. The Company wanted to be a good corporate citizen and sought to source some of its supplies from Southern Arizona. TRW searched for cable and harness manufacturers in S. AZ and found one. BusinessLINC identified five. Two were selected including the one that TRW found directly. The second, Cybernetic Research Labs, Inc. has become a major vendor to N-G and is considered one of their most responsive suppliers. CRL provides cables, harnesses, metal fabrications, and assembly services.

Continued expansion at the Sierra Vista site of N-G has fostered an ongoing relationship with BusinessLINC which is expected to expand in the future due to anticipated orders from the US government. N-G has acknowledged BusinessLINC for its role in helping N-G secure government orders.

Global economic forces have caused delays in the authorizations of many of the projects N-G has been awarded. As authorizations are obtained, additional requests will come to BusinessLINC. There has been discussion of exploring additional precision machining vendors with numerous firms submitted. We hope to have more S. AZ shops replace current California suppliers in the coming months.

BUYER:	Pima County Information Technology Department
PROJECT INITIATION:	7/3/02
PROJECT(s):	Request for ad hoc IT consultants in 15 different areas of specialty including: system security, databases, programming, GIS, equipment and setup, networking, reporting, etc.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 750K+ (all projects)
CONTRACT AMOUNT:	$ 385,000 (to date)
VENDOR PROFILE:	Local businesses of any size willing to entertain projects of unspecified duration and under $35K (to stay under the threshold for sealed bids).
VENDORS SUBMITTED:	101 (to date)
VENDORS CONTRACTED:	23 (35 contracts to date)

DESCRIPTION: The Pima County IT Dept. was referred to BusinessLINC by a local cluster representative. The anticipation of success was considered minimal. The IT Dept had not created its own database of suppliers specific to their needs. BusinessLINC requested specifications for the projects and proceeded to identify area enterprises that met the requirements. 69 vendors were submitted in the first round in October of 2002. 101were submitted in July of 2003 for the second round.

The IT Dept Director indicated that many of the vendors submitted were unfamiliar to him. In addition, many of the firms contacted by BusinessLINC said that they had attempted to offer their services to Pima County but were unable to make a connection. The project was so successful that the IT Dept decided to use the list of vendors submitted by BusinessLINC as their official RFQ list. Then, the Dept began telling their established vendors to register with BusinessLINC in order to be a part of the Pima County IT vendor RFQ database.

New contracts are about to be awarded for the current round with awards expected in the same range as last round ($385,000). The Dept will continue to use BusinessLINC referrals and will add new specialties as the needs arise (a request for a MIVA software consultant was added recently).

BUYER:	Adroit Automation, Inc.
PROJECT INITIATION:	9/22/03
PROJECT(s):	Request for validation of appropriate vendor mix to justify relocation of the Company from the Denver area (Charlotte WV, and Las Vegas NV were also strongly considered). Search was focused on Structural Steel, Metal Fabrication, Powder Coating, and Staffing services. Other projects will be listed.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 70K+ (all projects)
CONTRACT AMOUNT:	$ 0 (to date)
VENDOR PROFILE:	Local established vendors with a quality reputation.
VENDORS SUBMITTED:	23 (to date)
VENDORS CONTRACTED:	0 (located Tucson 12/15/03)

DESCRIPTION: Adroit was submitted to BusinessLINC by GTEC as a potential locate from Denver. The Co. was strongly considering Charlotte, NC and Las Vegas. GTEC indicated that their decision would be based solely on the availability of a suitable vendor pool. BusinessLINC was asked to submit vendors qualified in several specialties. The client reviewed the list and felt a trip to visit selected vendors was justified. Based upon the discussions with these firms, Tucson was selected as the new site for the plant. The move was anticipated in November, but was not accomplished until 12-15-03. Vendor selection should occur during January and February of 2004.

BUYER:	Destech Corporation
PROJECT INITIATION:	2/27/02
PROJECT(s):	Request for local vendors that could machine compressed sand cores, with precision, for the oil drilling industry. Destech developed this new core material that could revolutionize the manufacture of large drilling bits.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 1 MM+ (all projects)
CONTRACT AMOUNT:	$ 7,179 (to date)
VENDOR PROFILE:	Local established vendors with a quality reputation.
VENDORS SUBMITTED:	5
VENDORS CONTRACTED:	1

DESCRIPTION: BusinessLINC approached Destech to participate in the database as a vendor of its materials lab R&D. In the process, the need for machining of the sand cores was discovered. In addition, a need was expressed for engineering design services to optimize the production line used to create the sand cores. Several job shops were submitted and all but one was eliminated. The shop selected was able to provide both the machining as well as the engineering services. Destech's customer was pleased with the output, but the economy had a devastating effect on the demand for the new cores. It is anticipated that demand will again increase. At that time, it is speculated that the new cores could replace the use of the traditional graphite cores. Volume could be extremely high validating the estimate of $1 MM above.

Destech was using a machine shop in Denver as no others were able to produce acceptable parts. Destech found BusinessLINC to be invaluable in its ability to identify potential vendors.

BUYER:	TSE Brakes – San Luis Rio Colorado, Sonora
PROJECT INITIATION:	4/9/03
PROJECT(s):	Request for Southern Arizona region vendors to supply triple wall corrugated packaging and other related packaging materials.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 400K (all projects)
CONTRACT AMOUNT:	$ 120K (to date)
VENDOR PROFILE:	Established vendors with a quality reputation.
VENDORS SUBMITTED:	2
VENDORS CONTRACTED:	1

DESCRIPTION: Whitmark Packaging of Tucson is the current vendor of packaging supplies including poly bags, strapping supplies, corrugated materials and labels.

BusinessLINC has worked with Whitmark for several years now and the company has an excellent reputation for customer service. During our April '03 buyer visit to San Luis, we were informed by Pedro Cruz, Purchasing Manager for TSE Brakes, that he had been approached by another San Luis maquila for a recommendation for a packaging supplier. Pedro said he recommended Whitmark because of the excellent customer service he experienced from the Whitmark representative. Whitmark was subsequently asked to quote on materials to supply packaging materials to Plasticam del Norte, a garage door manufacturer. Whitmark has been informed that their prices are good and that once current inventories are at the low point, they will be considering the Whitmard quotes.

BUYER:	Steward Electronics – Nogales, Sonora
PROJECT INITIATION:	8/1/03
PROJECT(s):	Request for existing Tucson printing and labels vendor to be ISO 9000 certified in order to comply with new Steward quality requirements, thereby meeting supplier eligibility standards for continuing business.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ TBD (all projects)
CONTRACT AMOUNT:	$ 12K certification cost and continued business
VENDOR PROFILE:	Local business in jeopardy of revenue loss
VENDORS SUBMITTED:	N/A
VENDORS CONTRACTED:	1

DESCRIPTION: During a BusinessLINC program presentation to the Nogales, Sonora maquila association, Mr. Juan Pedro Giron, a buyer for Steward Electronics, stated that he was currently purchasing labels and other printed materials from Miles Label Co., Tucson, for their products. Mr. Giron stated that their client company was pressuring them to get their suppliers ISO certified in order to keep the business contracts, and asked what we could do to help Miles get their certification.

We then contacted B.J. Smith, manager of the city's workforce development program who was able to qualify Miles for a training grant, thereby drastically reducing the cost of obtaining the ISO Certification. The certification is in process and the quality assurance consultant has informed Miles' customers that the company is in the process of obtaining the certification. We have stayed in touch with Steward and Mr. Giron has said that he appreciates our efforts in working with Miles.

BUYER:	Ethicon Endosurgery, Inc. - Div of Johnson & Johnson
PROJECT INITIATION:	12/1/03
PROJECT(s):	Request for second-source vendors in the Tucson area offering: Stamping, Precision Machining, Coining, Metrology Services, Engineering Design, Specialty Labels, Mold Making, MIM, LIM, Tube Fabrication, and Knife Edge Forming.
PROJECT STATUS:	[X] In Process [X] Ongoing [ ] Complete
TOTAL POTENTIAL:	$ 120MM (all projects)
CONTRACT AMOUNT:	$ 0 (to date)
VENDOR PROFILE:	Prefer established companies with $2 to $5 MM in revenues, ISO compliance, and minority or women-owned status. SDB certification a big plus.
VENDORS SUBMITTED:	12 (to date)
VENDORS CONTRACTED:	0 (to date)

DESCRIPTION: Ethicon has decided to optimize the production of their industry-leading surgical tools by identifying additional sources of manufactured components. They have decided to focus on the Tucson area due to its proximity to their two assembly plants in Juarez, Mexico. Their plastic injection molding is already done in Tucson by two suppliers (one of which recently located here on Ethicon's request). The Company learned of BusinessLINC from a City of Tucson Official at the opening of the newly located plastic supplier.

Russ Weybright of Ethicon contacted BusinessLINC to explore the potential of visiting prospective vendors during a three-day stay (12- 8, 9, and 10 of 2003). This was arranged and exceeded the satisfaction of Ethicon representatives. Three local firms were considered possible "prime contractors". Others were found to have capabilities useful to Ethicon. Vendors were selected from the BusinessLINC database using very brief descriptions. Specifications for vendors were refined during the three days of site visits. Searches continue using the database and recruiting new vendors to the database. In addition, the SBA has been asked to provide assistance to vendors interested in becoming SDB certified.

The timetable for this project will likely extend well into 2004. It may take 3 to 4 months to finalize contracts with vendors, although some projects appear to have near term expectations.

February 20, 2004

The Honorable John F. Kerry
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

FIRST AMERICAN BANK

Dear Senator Kerry:

I understand that there are ongoing discussions in DC of doing away with USEAC offices of SBA. This would mean that people like Jack Nevell at USEAC-SBA Chicago, Pat Hayes in Cleveland and John Dunn in Miami, would no longer be able to assist us with export financing in their respective regions.

I mention those three individuals because we have established mutually rewarding relationships with each over the past 15 months. In late 2002, as a result of Mr. Nevell's several presentations to our institution, we decided as a bank to avail ourselves of the Export Working Capital Program (EWCP) as well as the International Trade Loan (ITL) programs. Since then we have booked four facilities in excess of $2.1 million in total and we have two more in the amount of approx. $1.5 million that are just about to be finalized.

All those transactions are providing pre-export working capital to companies that would otherwise be unable to fulfill the export purchase orders they receive. USEAC offices have provided vital assistance in the completion of those transactions.

I strongly urge you to leave those offices at the disposal of the small exporters and the few trade financiers that are willing to look at low $-size transactions.

Sincerely,

Joseph Chevalier, SVP

National Bank
of **Middlebury**

Putting You First Since 1831

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Phone: 802-388-4982 Fax: 802-388-6077
Sarah A.P. Cowan, Vice President

February 11, 2004

The Honorable John Kerry
Committee on Small Business and Entrepreneurship
US Senate
Washington DC

RE: US Export Assistance Center Funding

Dear Senator Kerry:

I am writing in support of continuing funding of the US Export Assistance Centers as a valuable resource in meeting international trade financing needs. The expertise required in developing financing facilities is not always available at individual banks, nor do the borrowing companies have this type of expertise on their staffs. Without the aid of the Export Assistance Centers, the ability of providing working capital to small businesses will be impaired. Small businesses and their banks turn to these offices because of their expertise in international trade. The working capital lines that result are important contributors to the growth and success of these small businesses.

Case in point. I have worked closely with the Boston office to secure SBA guarantied export lines of credit for a business which, given lack of capital and other limiting factors did not qualify for conventional financing. The fact that the working capital was to be used to fund production while awaiting collection of foreign accounts receivable prevented the bank from providing a traditional line of credit. We needed the expertise of an international financing specialist to advise us in crafting a line that would include a credit enhancement to the bank, as well as their assistance to facilitate the loan application process. This company is now poised to grow over 100%, from $2.8Million to over $7 Million in gross revenues in it's current fiscal year given signed contracts with overseas companies. Such growth can not be funded without high levels of working capital. The export line of credit was instrumental in giving the business owner the confidence that they could meet their working capital needs to secure and perform under these contracts.

The company to which I have referred has benefited from the Export Assistance Office expertise for over 5 years. Without the office's assistance it is likely that we, as this company's bank, would have been reluctant to provide a comprehensive financing package, as we would have not had the confidence that it was a prudent and well-structured facility for the company- and the bank. We hope that you will take this under advisement as you consider an appropriate level of funding in order to assure the continuation of this valuable resource. Providing this expert assistance will support our nation's small businesses as they look for opportunities to grow in a global economy.

Sincerely,

Sarah A. P. Cowan
Vice Present

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

504 Loan Guaranty Program Status, Proposed FY 2005 SBA Budget, & SBA Performance Plan

Submitted to the

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

UNITED STATES SENATE

by

Mr. Christopher L. Crawford
President & CEO

February 12, 2004

The National Association of Development Companies (NADCO) is pleased to provide a statement to the Senate Committee on Small Business and Entrepreneurship concerning the SBA budget proposed by the Administration for FY 2005. NADCO is the trade association for SBA 504 Certified Development Companies (CDCs). We represent 250 CDCs and more than 200 affiliate members, who together provided more than 99% of all SBA 504 financing to small businesses during 2003. NADCO's mission is to serve as the key advocate for the 504 program, and to provide program technical support, marketing assistance, strategic planning, and professional education to our membership.

504's objective is economic development and specifically job creation by funding the expansion of successful, growing small businesses. No other Federal economic development program can claim to have created over 1,100,000 jobs, as the 504 program has done. This mission is more important today than ever before, with our economy stuck in a "jobless" recovery. 504 is a critical economic stimulus program designed to assist growing businesses create jobs and invest in their communities.

NADCO would like to thank Chairman Snowe, Ranking Member Kerry, and the entire Committee, for continued support of the 504 program. Your Committee has worked closely with the Congressional leadership, SBA, and our industry to ensure the availability of capital to small businesses through the 504 program through the years.

We have three objectives in providing this statement to the Committee. First, NADCO would like to update the Committee on our current program status for 2004.

Secondly, we comment on the FY 2005 SBA budget. This includes the Administration's 504 authorization level, as well as the proposed borrower fees and subsidy model assumptions by SBA.

Third, we will comment on several program issues noted in the SBA's *Performance and Management Assessment*.

STATUS OF FY 2004 PROGRAM AUTHORIZATION

With no agreement between the House Committee and the Administration on SBA's reauthorization bill, H. R. 2802, this Committee acted decisively to insure continuation of the 504 program in November by passing a temporary program reauthorization bill. Unfortunately, those provisions expire on March 15, 2004, barely four weeks from today.

NADCO recognizes that this Committee passed S. 1375 late last year in order to reauthorize many SBA programs, including 504. We appreciate this action by the Senate.

504 is unique among SBA lending programs, in that it receives no Congressional appropriation, and is thus not covered by the recently passed Omnibus spending bill. Without immediate action by Congress to pass a reauthorization bill, 504 will shut down on March 15th. This will close the door on access to almost $8 billion in long-term capital to America's small businesses.

504 has a long history of bi-partisan support for its job creation mission. Since the mid-1980s, we have added well over 1,100,000 new jobs to our economy. To keep this program going during the current "jobless" recovery, it must be reauthorized. NADCO urges quick Congressional action to move a reauthorization bill that includes 504, or take up a separate bill to continue the program. Otherwise, 504 will soon cease operations.

PROPOSED SBA FY 2005 BUDGET

1. 504 PROGRAM AUTHORIZATION LEVEL

SBA proposes an authorization level for 504 of $4.5 billion. We are concerned that this is insufficient and we support a level of $5.5 billion. As the program continues to fund itself through borrower, CDC, and first mortgage lender fees, there is no cost to the Federal government, nor any Congressional appropriation. Program growth continues at a rapid pace this year, after growing 27% in FY 2003. Our expectation is for even more growth into, and beyond, FY 2005. We are concerned that, should banks continue their tight credit for small businesses into 2005, 504 demand may simply outstrip available authority.

The benefits to the country are numerous. New 504 projects provide new jobs in their communities by expanding the plants, equipment, buildings, and employment levels for our borrowers. In turn, this expansion leads directly to new tax bases, including:

- **City & County real estate taxes from new construction projects**
- **State & local sales taxes from increased business revenues**
- **Federal & State income taxes from new and expanding businesses**
- **Federal & State payroll taxes from new employees.**

It is clear that businesses assisted by this no-cost program are contributing to the tax revenues received by all levels of local, State, and Federal governments. We encourage this Committee to stand by its own higher authorization level during this economic recovery when every job we create is putting an American back to work.

2. 504 BORROWER FEE DECREASE

SBA's proposed FY 2005 budget decreases the annual fee charged each 504 small business borrower from 0.393% to 0.288%, a decline of 27% in fees for our borrowers. We appreciate this decline in the borrower fee, as it demonstrates that the subsidy model work of SBA is headed in the right direction.

This "subsidy" model is actually a program cost model. There is no Congressional appropriation needed to provide a 504 subsidy. The fees paid by borrowers, our CDCs, and our first mortgage lenders offset completely the program loan loss expenses. Thus, except for the small SBA staff required to maintain and implement program policy and oversight, this is a no-cost program for the taxpayer.

Two significant factors influence the program cost model, which leads directly to the annual borrower fee. This year's calculations indicate good news for both factors.

Loan Default Rate:

OMB budget documents state that the 504 loan default rate increased from 7.52% to 8.28%. However, the SBA CFO has just provided a correction to NADCO. The loan default forecast for 2005 actually DECLINES; going from 7.52% down to 6.89%. This likely reflects the strong economic conditions during which these loans will be made, resulting in lower expected defaults in the future.

Loan Recovery Rate:

SBA's forecast of recoveries on defaulted loan collateral improves – to a net rate of 44% from last year's forecast of only 17%. We believe this to be a much more accurate projection of future recoveries for the 504 program. 44% is much closer to the actual recoveries of the Congressionally-mandated 504 liquidation program, for which actual recoveries averaged better than 50% for the twenty CDCs in the pilot.

NADCO appreciates the efforts by the Administration and particularly the SBA Chief Financial Officer to implement the new econometric model for 2005 forecasting. A brief meeting to review this more sophisticated model indicates it may well result in much improved forecasting of critical portfolio performance factors. Given a projected reduction in defaults and an increase in recoveries for FY 2005, it is clear that the result will be a savings of millions in guaranty fees for several thousand small business borrowers over the twenty-year life of their new 504 loans. We hope to receive further information on this model from SBA shortly.

PERFORMANCE & MANAGEMENT ASSESSMENT

504 PROGRAM P.A.R.T. RATING:

The Office of Management & Budget last year devised a means of evaluating Federal programs in order to report on progress on the President's Management Agenda. This methodology is called the Program Assessment Rating Tool, or "PART". This system looks at the following areas:

- Program purpose & design — weight: 20%
- Strategic planning — weight: 10%
- Program management — weight: 20%
- Results/accountability — weight: 50%

I am pleased to report that OMB has improved its rating of 504 from "*results not demonstrated*" to "*adequate*". While NADCO believes the impact of 504 to be far better than just adequate, we recognize that this rating process primarily evaluates internal SBA management, planning, and accountability – issues that do not affect the financing impact on our borrowers. Our industry hopes that OMB will continue to view 504 in a positive manner.

However, a key criticism of the program concerns PART question 1.3: *Is the program designed so that it is not redundant or duplicative of any other Federal, state, local, or private effort?*

Answer: *NO.*

Explanation: *There is potential overlap between SBA's 504 and the 7(a) programs. While both may provide long-term loans for fixed asset purchases, the programs have different financing structures. The 504 program provides fixed rate lending with the government in a second lien position. The 7(a) program, which also can finance working capital requirements, provides financing at variable rates with lenders and the government sharing risk as first lien holders.*

We find the "NO" answer intriguing, since the PART itself goes on to highlight several of the significant differences between these two SBA loan programs.

NADCO believes that the programs are not redundant. In fact, the two programs are fundamentally very different from one another – as to purpose and to financing structure. The intent of 504 is economic development through job creation. 7(a) provides access to capital.

The 504 program exclusively involves financing long-term fixed assets, and its primary goal is providing community economic development through job creation. 504 does not provide short term or working capital loans. The 7(a) program can meet a variety of financing needs for small business, and its primary incentive is to induce private lenders to offer credit to borrowers who do not meet their regular lending criteria. Thus, 504 generally makes job creation loans to healthy, growing small businesses, while 7(a) may make loans to businesses with generally weaker credit that banks would not normally finance. Note that the results of these characteristics may be seen in the different default rates of the two programs. This demonstrates that each program is addressing its intended audience.

Additionally, the two programs provide very different credit structure to borrowers. Given the deposit volatility for most commercial banks, they will almost always provide variable rate small business loans, often tied to "bank prime". With today's prevailing interest rates, this is attractive to borrowers. However, banks cannot usually maintain such low rates as their cost of funds increases when overall market rates go up. Thus, the annual cost of a variable rate loan is almost certain to increase in the future, creating further risk for small businesses in planning their debt service requirements. To mitigate this risk to both the borrower and the lender, banks will usually provide shorter term loans.

On the other hand, the 504 loan provided by CDCs is always a fixed rate, ten or twenty-year loan. Given its length, businesses use 504 to acquire either expensive heavy equipment or buildings and real estate to house equipment that provides new jobs – the Congressional intent of 504. Further, 504 is viewed by our bank lending partners as an "inducement program". That is, in providing the SBA guaranteed 504 second mortgage, lenders are more favorably disposed to provide attractive terms to borrowers through their 50% first mortgage. They have a better loan-to-value ratio, and thus are taking less risk. This translates directly to improved borrower credit pricing by the bank lender. The result of this "blended" financing package is that a smaller, non-subsidized Federal guaranty leads to a lower borrower cost and potentially less overall risk for the business.

It is clear that neither the terms & conditions, the program structure, or even the Congressional program objectives are the same for both programs. NADCO believes it makes no more sense to consider combining these programs than putting together 504 and FHA-guaranteed residential lending. We urge rejection by this Committee of any attempt by the Administration to combine the 504 and 7(a) loan programs.

SBA INTEGRATED PERFORMANCE PLAN

Here are several of our recommended program and processing enhancements from last year:

- Set specific 504 loan production goals for all SBA District Offices.
- Streamline the loan approval and loan closing processes.
- Take advantage of twenty-first century computer and communications technologies to speed up the loan-making and loan closing processes, improve service to borrowers, and reduce SBA staff time commitments.
- Shift at least some 504 processing to more consistent loan review operations at several centralized loan processing centers.
- Update the job creation ratio to one job per $50,000 of 504 loan provided to a business.

NADCO and our many members must congratulate the Administrator and his management team for making substantial progress towards several of our recommendations. Among SBA's achievements and opportunities are:

1. Under its new 504 regulation, SBA has recognized the impact of years of inflation on our financing projects, and moved the job creation ratio to one job per $50,000. This will enable many more small businesses to utilize 504 for expansion capital.
2. It is our understanding that SBA is beginning to set specific performance goals for their District Offices for 504 lending. This action appears to have focused the attention of many more field managers and District Directors on serving the needs of their customers: America's small businesses. This achievement alone has likely aided hundreds of new 504 borrowers.
3. While SBA has not yet moved to take advantage of technology for the loan approval and closing processes, it appears to be making a quantum leap in the audit and oversight arena. Its new lender oversight procedure, utilizing information from both Dunn & Bradstreet and Fair Issacs financial databases, promises to both improve and speed up the identification of problem loans and even substandard lenders. NADCO awaits its final results.
4. Through a very promising centralized loan processing pilot in Sacramento, our industry hopes that both loan approval time and paperwork burden will be reduced, resulting in improved service to both small business borrowers and lenders. If anything, we believe this pilot should be more quickly expanded to all District Offices, given the budgetary constraints for FY 2005 and the decline in available field staff. However, as with any critical program process, we are very concerned with having only a single source of SBA 504 loan processing. Such configuration greatly increases business risk for any entity in the event of a catastrophic failure. We urge SBA to return to its previous critical business model by immediately establishing a second east coast processing center for 504.
5. NADCO believes that the Administration should more quickly move to further streamline the loan closing functions within the agency. There appears to be antiquated closing paperwork and field office review that is completely unnecessary and burdensome for

borrowers and lenders. This costs everyone, including SBA, both time and money and significantly reduces service level to small business borrowers.

6. Finally, the 504 loan liquidation responsibilities must be both centralized and increasingly privatized. SBA's shrinking and over-burdened field staff has simply not been able to keep up with the maintenance required for the rapidly growing 504 loan portfolio. This change appears to be moving forward for the 7(a) program, which has resulted in the departure or reassignment of many field office portfolio management staff. The unfortunate by-product is a greatly reduced effort to liquidate or work out the 504 loan defaults. We are concerned that this interim period until 504 liquidation is centralized may provide an opportunity for substantially higher loan losses. We urge quick action to establish a new liquidation process for 504 within SBA.

Given the substantial progress we see in many processing and lender support areas, we should recognize two critical and unsung SBA managers that have organized and are leading these efforts. Many of these projects are being directed and supported by Mr. Ron Bew, Deputy Associate Administrator for Capital Access. We also recognize one of his career department managers, Mr. James Rivera, Associate Administrator for Financial Assistance. Much of the time-consuming and difficult planning and execution work of this massive reorganization is falling to Mr. Rivera. We believe these two able managers are accomplishing much with the leadership and support of Administrator Barreto. We hope their actions will advance SBA's loan guaranty support departments into a new era of enhanced service to small businesses, lenders, and the American taxpayer.

SUMMARY

Our Certified Development Company industry remains focused on meeting today's critical capital access needs by small business. CDCs are closely tied to their communities through their membership, their volunteer boards of business, community, local government, and financial leaders. Industry success is based on this local CDC board and member involvement, in partnership with both first mortgage lending institutions and SBA staff.

Our CDCs are non-profit, so every dollar of their 504 servicing income goes right back into their communities to build stronger local economies and create more new jobs for Americans. Job creation is the ONLY focus for every CDC.

However, all of these entities, CDCs, first mortgage lenders, and SBA, can succeed only with the leadership and legislative support of Congress and the Small Business Committee. The 504 program, Federal government's largest and most successful economic development tool, today is dependent on Congress for its reauthorization for the remainder of FY 2004, and into the future. Without quick action by the Congress, the program, and small business access to almost $8 billion in long-term capital, shuts down on March 15, 2004. NADCO urges the Committee and the Congress to act by passing a program reauthorization bill as quickly as possible, even as it considers the President's FY 2005 SBA budget.

Thank you for allowing us to provide our comments. NADCO is pleased to work with the Committee and the Administration to improve the 504 program and help America's small businesses create more jobs.

4dsolutions

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January 22, 2004

The Honorable Arlen Specter
United States Senate
120 Russell Senate Office Building
Washington, DC 20510

Dear Senator Specter:

I am writing to you regarding my SBA loan guarantees and the recent CAP that SBA elected to place on the 7(a) loan guarantee program, which the lender says was due to a lack of Congressional funding. This recently imposed CAP will have devastating consequences to small businesses like ours as well as many throughout the country. Please allow me to explain in the hope that this CAP may be repealed for the small businesses like ours as well as other exporters through out the country that heavily rely on this crucial government program.

I have three specialized Export Working Capital Program (EWCP) loan guarantees through the SBA's representative, Robert Elsas, located at the Philadelphia U.S. Export Assistance Center (USEAC). Two of these guaranteed loans were in-process for renewal, (as they have a one year maturity), when suddenly SBA upper management decided to CAP the 7(a) loan program to $750,000.00. My two loans combined with the other EWCP and SBA Export Express, exceed the $750,000.00 CAP. If these loans cannot be renewed due to a CAP, they would be subsequently un-guaranteed and the lenders would undoubtedly call them in, effectively putting us out of business.

The EWCP loans have been the life blood of my firm. As a matter of fact, it gave us the ability to win the Pennsylvania Governor's Exporter Excellence Award in 2001. My firm provides mission critical, interactive, computer-based training to the Saudi's Royal Air Force. Not only does this CAP hinder my firm's ability to provide the essential cash flow for operations, but goes a step further, sending a clear message to the Saudi Royal Prince we work with, that the United States is pulling back on their financial support of international business relations with Saudi Arabia. The Prince has been able to detect my delay in committing to additional work orders due to my lack of funds to cash flow sensitive deliverables. Having a unique understanding of U.S. – Saudi relations, I would have to say that the last thing our Nation needs after 911 is to send this kind of message. Our contracts have very high visibility within the Saudi Royal Family and our firm has a tremendous track record of trust built up with them. As you probably know, this trust can be rare and is invested over years of working together.

4dsolutions

I therefore believe it is critically important for Congress to provide SBA full funding of the U.S. Export Assistance Center and the removal of the CAP. We have examined all of the other options, including EXIM Bank but they cannot legally finance military projects. As a result, my bank and the SBA are my ONLY resource. You can see now why the full funding and the removal of this CAP have become so critical that I felt compelled to write this letter!

As a measure of this CAP's impact to the Federal Government, if this funding, God forbid, does not become available to our firm, the Federal Government could run risk of endangering the existing Federally funded loans our firm has retained, to include a SBA disaster loan.

The general condition of our great economy is growing; in part, I believe due to growth in exports. This international sales growth, as I see it, can be attributed to SBA programs that help small businesses explore and succeed in the global market place. If anything, Congress should be dumping resources into the SBA's division of International Trade and the U.S. Export Assistance Center's across our country, not reducing support or "Capping" the limits that are available in which to operate a small global business.

In conclusion, I believe my tax dollars have been very well spent in SBA's international trade finance programs. At a time when America is losing its isolationist way of doing business and expanding our great economy globally, it just does not make logical sense to drop the funding to a program that has made a huge impact on my firm's ability to expand internationally. Please expedite the funding of SBA's funding and especially the funding of the division of International Trade and USEAC's across the country.

Thank you in advance for your attention to this matter.

Sincerely,

Robert O. Culver

Robert Culver
Chief Executive Officer
4D Solutions Inc.

CC:

Senator Rick Santorum
Representative Jim Gerlach
Representative Curt Weldon
Administrator Hector Barreto

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11 February 2004

The Honorable John F. Kerry
Ranking Member
Committee on Small Business and Entrepreneurship
U.S. Senate
Washington, DC 20510

Subject: Information regarding SBA 7 (a) loans that the Senate Small Business Committee should consider

As CEO of NATO Expansion Engineering & Program Management Corporation (NEE & PMC), I am pleased to submit the following for your consideration during your hearings on the subject matter on 12 February 2004:

1. While SBA in News Release Number: 04-08 is proposing to remove the current lending cap of $750,000 that has recently caused much pain and anguish to US companies exporting their products or services overseas and reinstate it to the previous $2,000,000 limit, I believe that the $2,000,000 limit should be increased to at least $3,000,000 or possibly $5,000,000 because:

   (a) Large businesses normally do not look at foreign projects unless they are usually over $10,000,000 – this situation creates a niche for small businesses to pursue these jobs
   (b) Most of our foreign contracts are multi-million dollar and multi-year contracts and we are looking at future growth markets for our services in other Central European countries but to grow and employ more people, the $2,000,000 ceiling and lending guarantee, once reinstated, still will not be enough to sustain such growth.
   (c) EXIM Bank will not support any company that is exporting anything that deals with military. This exclusion is not only to weapons, systems, etc… but has affected us in negative fashion because we are doing Architect & Engineering (Civil Engineering) work for Polish Ministry of Defense under contracts paid for with NATO funds, thus we are ineligible for EXIM Bank support.
   (d) There are many US companies in the same or similar situation and since the EXIM Bank can not support us in anything that even hints of military, the SBA EWCP is the only government program that can support such needs of our Small Business Exporting Community.
   (e) If the SBA lending and guarantee ceilings were increased to $5,000,000, then I expect to see at least a 50% increase in revenues for our company in the next two years which would translate into significantly many more jobs for Americans.

2. My experience with the SBA and in particular the US Export Assistance Centers is most positive. I am alarmed however that the SBA Administration has recently submitted a proposal to change the USEAC process by centralizing it and to assimilate that organization's budget within the overall SBA budget. I most strongly disagree with that action. We need the USEACs to continue doing their superb work under the same process as they previously have been working under and that they remain as a separately and fully funded organization within SBA under the previously approved Congressional authorizations and appropriations. The success of the USEAC program is the main reason why many US Small business companies are starting to successfully compete and win contracts overseas, because those small businesses have individual attention from lending experts that know our businesses, the lending programs and know the lenders so that CEOs of those companies know up front what support they can receive in financing their new projects overseas. Please do not change the USEAC Program – leave it as it was – do not fix what is most definitely not broken - you can only damage a success story of our government.

3. If you are looking at suggestions on how to improve efficiency and save money for the government and taxpayers then think about this – if most of our foreign contracts are more than a year in duration and multi-million dollars in value, then, why do we have to renew the financing guarantees every 12 months. If it's because of the lending fees/rates schedules, then improve on those and allow for more time in between renewals. In our case we have some contracts with periods of performance from 2000 through 2006, that means that during the life of those contracts we will have to go through 6 renewals. That means that six times the SBA, the USEAC, the lenders and my personnel will be involved in administrative handling/processing of the paperwork, paying loan fees and signing off on many legal documents. Why don't you ask the USEAC experts on how to improve this situation so that this process can be more efficient. There must be a smarter and better way of doing renewals of loans without killing the small businesses with high loan fees. Maybe these renewals can be made for more than every year (i.e. contract period of performance plus 3-6 months for final payment or every two years, as long as the contract is still in force, or some other smart way).

I thank you for your attention to this matter and should have any questions, please do not hesitate to contact me at 215-542-9660.

Sincerely,
NEE & PMC

Z. A. Cymerman,
CEO

Martin, Sarah (Small-Business)

From: DiFrango, Jerry
Sent: Tuesday, February 24, 2004 9:57 AM
To: Martin, Sarah (Small-Business)
Subject: FW: SBA Funding and Staffing Levels
Importance: High

February 23, 2004

Dear Ms. Martin

I am emailing regarding our concern over the lack of sufficient funding for the SBA's 7(a) loan guarantee program and the dramatic staffing reductions.

SMC Business Councils ("SMC") is a small business trade association of approximately 4,000 members in Western and Central Pennsylvania. Our mission is to help small businesses pool their collective resources to help create a better business environment for these smaller entities. Where as, large business concerns readily voice their issues via their lobbyists, the small business community's voice is rarely heard or heeded.

However, this SBA issue has been openly discussed in our Board of Directors and Executive Committee meetings and we are perplexed. It is a known fact that the small business community spearheads economic comebacks but the administration and Congress have decided to curtail a crucial funding source for these same small businesses that will be point for our current economic recovery.

In my capacity as Controller for SMC, I have dealt with the personnel of the Pittsburgh office of the SBA and have first hand knowledge of the commitment of the SBA's Pittsburgh staff. I have referred our members to both the SBA and the SBA's Small Business Information Center. I am sure that other communities in our great nation wish they had the resources of the Pittsburgh SBA...but these communities will now never be served and our Greater Pittsburgh/Western Pennsylvania community will now be under-serviced due to shortsighted politics in Washington.

Please understand that I fully agree that cuts must be made in our Federal budget to not jeopardize the future for our younger generation and I can understand why the administration and Congress have made staff reductions in the SBA. Some degree of reductions had to be made and I concur. Many of our SMC member companies have made the same difficult decisions on staff reduction. However, the current proposals would gut the SBA and leave the lending to only the large banks that already have full staffs in place to completely service the needs of their small business SBA loan-seeking customers. Based on what I have heard, these large banks are turning down all but the most credit worthy customers for SBA loan guarantees. Wow...that will really help entrepreneurial small businesses. But...how about all the many small banks that relied on the SBA for technical support in filing the appropriate paperwork for their customers? It is my understanding the new SBA requests will be processed through some service center in Virginia. Without some degree of local SBA support, the local small banks will probably discontinue processing SBA loans and where do you think the entrepreneurs will then go...the large banks will not be an option. If the intent of the administration and Congress is to gradually eliminate the SBA, then they are doing a fine job.

I could rant about the considerable waste throughout the Federal government but I know that would be a waste of time...I could complain that other projects that receive Federal largesse should not be rated higher...but it comes down to this...how many jobs did the SBA loan guarantees create in the past few years...how many more tax dollars were created due to SBA loans. Now...compare that to the outlays for the many Federal outlays that are always touted in the news and only create an outlay of Federal funds with nothing "inbound".

Thank you for listening...

Sincerely
Jerry DiFrango, CPA
Controller
SMC Business Councils
1382 Beulah Road
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North Shore Bank

Commercial Lending Group
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Fax

To:	Sarah Martin	**From:**	Ray Dugdale, V.P.
Fax:	202-224-4885	**Phone:**	(978) 538-7052
Pages:	1	**Date:**	2/24/04
Re:	Proposed SBA FY 05 Budget	**CC:**	Sen. Kerry

☐ **Urgent** ☐ **For Review** ☐ **Please Comment** ☐ **Please Reply** ☐ **Please Recycle**

● **Comments:**

Dear Senator Snowe,

As a career SBA lender, I have been witness to the tremendous impact of SBA programs. To discourage banks from making SBA loans by lowering the guarantee percentage, or to discourage small business start-up or expansion by raising fees, there would be a negative impact on small business communities. Please keep the guarantee percentage the same as it has been for the last few years, and please reduce the guarantee fee burden on the applicants. The administration's proposals would just further weaken a slow economy.

Sincerely,

Raymond W. Dugdale

Raymond W. Dugdale
Vice President
North Shore Bank
32 Main St.
Peabody, Ma. 01960

ResourceBank

3720 Virginia Beach Blvd. • Virginia Beach, Virginia 23452 • P.O. Box 61009 • Virginia Beach, Virginia 23466 • (757) 463-2265 • Fax (757) 498-3658

February 25, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Attn: Sarah Martin
Via Fax: 202-224-4885

Dear Senator Snowe:

As a very active community bank SBA lender, I would like to submit the following information in support of full funding of the SBA 7A loan program by Congress and the negative impact the proposed changes made by the SBA will have to small businesses.

Resource Bank is a statewide community bank located in Virginia with $860 million in assets. The Bank has PLP status for the Richmond and Washington, D.C. offices of the SBA. The Richmond District Office has recognized us as the most active community bank lender for the past four years. We have also received the highest rating from the SBA audits of our loan portfolio for the past three years.

We have been making SBA loans for ten years, and over that period we have approved and funded 250 loans totaling $53 million.

Our current portfolio of both 7A and Express loans totals $30 million with 160 active loans to 120 small business customers. The following is a synopsis of our portfolio of existing loans:

Ownership:	24 minority owned 32 women owned 12 veteran owned
Loan Purpose:	30 business acquisition loans 41 business start-up loans 41 capital expansion loans 1 community development loan 5 loans to businesses located in enterprise zones
Job creation:	300 new jobs 172 jobs retained

Why SBA? Resource Bank has utilized the SBA loan program, and specifically the 7a loan program, to allow for the development of small businesses within our market areas. We can lend based on what's possible rather than just what has happened in the past. Bankers traditionally base loan decisions on historical financial results. The SBA allows us to base decisions on the future. The SBA allows us to make loans with lower equity requirements than for standard commercial loans. It also allows us to make loans to higher-risk industries such as restaurants and convenience stores. It allows us to finance start-ups with no historical financial results and with limited secondary repayment sources (collateral, personal guarantees, etc.), and provide longer repayment terms.

Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record
February 25, 2004

Our Perspective on the Impact of Proposed Changes:

- It is our understanding that there is a series of changes proposed by the current administration that cause us great concern.
- Of the 250+ loans we have approved, fully 200 (80%) were done so with a guaranty percentage higher than 50%.
- **Our greatest concern is the proposal to reduce the maximum guaranty percentage to 50%.**
- We would **NOT** be willing to accept the risk of financing start-ups, acquisitions, and expansions without placing additional approval restrictions such as additional equity, more collateral, and other guarantees.
- Net effect would be we would reduce SBA loan volume by at least 50% or more.
- **This translates into the loss of over 100 existing jobs and the loss of over 150 new jobs.**
- The proposed fee changes will also have a chilling effect on the availability of credit due to the higher costs that would be borne by the borrower.
- Access to affordable capital is a critical concern for small businesses, and higher fees would limit their access to capital that is affordable and could possible stall the economic recovery.

In conclusion, Resource Bank as a community bank SBA lender believes that we use the 7(a) program as it is intended to be used, that we are not a specialty "niche" lender doing exclusively larger loans, nor do we provide just SBAExpress loans. We help create jobs, and more importantly, we help people achieve the American dream of owning businesses. We could not do this to the level we have without the assistance of the SBA's loan guaranty program.

We implore you to do what you can to preserve the program as it now stands. The alternative will have a chilling effect on small business owners and will especially hurt current and future generations of small businesses throughout the nation. Small business is one of the engines that drive the American economy through job growth and business expansion. Please help ensure that a vital part of that engine is not legislated into extinction.

Sincerely,

William C. Gill
Vice President

U.S. Export Assistance Center
One World Trade Center
121 SW Salmon St., Suite 242
Portland, OR 97204

U.S. EXPORT ASSISTANCE CENTER

U.S. Commercial Service &
U.S. Small Business Administration
TEL: (503) 326-[illegible]
FAX: (503) 326-[illegible]

January 20, 2004

The Honorable
Brian Baird
U.S. House of Representatives
120 Union Avenue, Suite 105
Olympia, WA 98501

Dear Congressman Baird,

I am writing to thank you for your continued support and inform you about the ongoing activities of the U.S. Export Assistance Center in Portland and its efforts in support of Southwest Washington firms in international markets. As a combined office of the U.S. Department of Commerce's U.S. Commercial Service and the U.S. Small Business Administration, we work closely with small to medium sized firms throughout Southwest Washington and Oregon to assist their international marketing activities and trade financing needs.

In FY 2003, our efforts with companies in our database of over 1700 Oregon and Southwest Washington firms resulted in our office facilitating export transactions worth more than twenty-five million dollars and arranging four million dollars of SBA guaranteed financing which supported an additional eight million dollars in export sales. Our clients include companies in your district ranging from Harmony Soap Works in Pacific Beach to CPDI in Vancouver. While Washington's economy continues to recover, export-related production has continued to support growth and jobs in communities throughout the state. We are always ready to provide our counseling, market research and trade financing services to interested companies and would welcome the opportunity to work with your office on any type of outreach activity to alert the business community to international opportunities and our agency resources.

As you are all too well aware, the impact of international trade in Washington is very often negatively perceived. To assist in countering this impression, we have attempted to recognize small companies throughout the state with an Export Achievement Certificate that informs the community that local companies can be successful in international markets. We had the honor of your participation in a ceremony recognizing Harmony Soap Works in Pacific Beach last year. We would hope to work with your office and one of our partners, the Export Council of Oregon and SW Washington, to identify additional potential recipients in your district. If your schedule permitted, we would also hope to request your (or staff) participation in an award ceremony in cooperation with the recipient.

I would like to wish you all the best in the New Year and look forward to working with you in support of Washington's exporters.

Sincerely,

Scott Goddin
Director

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
Hearing: "The President's FY2005 Budget Request for the SBA"
February 12, 2004 at 9:30 a.m.

Testimony Submitted By
TOM HAMPSON, EXECUTIVE DIRECTOR
ONABEN – A NATIVE AMERICAN BUSINESS NETWORK
11825 SW Greenburg Road, Suite B-3
Tigard Oregon 97223

Madame Chair, Ranking Member Kerry, and Members of the Committee:

Thank you for the opportunity to once again provide testimony to the Senate Committee on Small Business and Entrepreneurship.

On behalf of the Board of Directors of ONABEN - A Native American Business Network, I am writing to express our concerns regarding the Bush Administration's proposed 2005 budget for the Small Business Administration. In May of 2003 I had the honor of providing testimony to your committee on the Native American Small Business Development Act.

During that hearing, I was impressed with the testimony of SBA Associate Deputy Administrator for Entrepreneurial Development, Kaaren Street, in which she articulated the agency's expanded vision for serving Native American entrepreneurs. In her testimony she announced the intention to appointment a National Director for Native American Outreach and said, "I'm certain we all agree there is a definite need for additional economic development services within the Native American Community." Ms. Street stated the SBA had a vision for "…providing the appropriate tools to promote self-sufficiency and job creation in our Native American community." The initiatives that the agency supported as part of this outreach effort were being done because the agency recognized that the Native American community was a "traditionally under served segment."

We do not need to review the record documenting the truth of which Ms. Street spoke. Together we have worked to try to fill the existing gaps in service delivery to Indian Country with SBA and through our work with your committee on the Native American Small Business Development Act. The needs of the Indian community and the fact that the SBDC's, SCORE, and other core SBA programs are not able for resource and cultural reasons to fill those needs is well documented in the record and does not need restatement.

What is worth repeating is that SBA has been a critical part of our efforts at ONABEN - one of the few programs that exist today to serve the entrepreneurial needs of Indian Country. At various times over the last fourteen years, ONABEN has availed itself of the 7-J, PRIME, Women's Business Center, SBDC programs and has received strong SBA staff support at the District, Regional, and National levels. While the funds that support these programs have never been consistently available in amounts sufficient to meet the needs, without them, ONABEN likely would not have survived. This is the reason the Native American Small Business Development Act is so critical to addressing the existing service gaps.

We find it quite puzzling, if not hypocritical, that the Administration would now suggest that these initiatives be abandoned and that the agency could backfill these services with programs that were, by their own admission, inadequate to serve Indian Country. It is especially ironic given that the Administration is proposing to make even fewer resources available under the 2005 Budget.

It is imperative that we work together to keep the Native American Outreach program in tact, return the TBICS, fully fund existing programs, and implement the new initiatives outlined in the Native American Small Business Development Act. This must be done if SBA is to keep their word and if we are to keep the momentum in programs in which ONABEN and other programs have shown will result in extremely positive returns for funds invested.

Thank-you.

February 24, 2004

The Honorable Olympia J. Snowe, Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Dear Chairman Snowe:

It is very important that the SBA 7(a) program be reinstated as it was before the program was shut down and the cap was placed in January. The shut down and cap have greatly impacted our borrowers and their businesses. When the shut down occurred we were within hours of having several loans approved by several SBA District Offices. These loans were needed to purchase new businesses as well as refinance existing debt which would greatly improve cash flow for our borrowers and to allow them to expand their businesses. By being able to refinance debt through the SBA, a borrower will often save up to 40% on its monthly cash flow. Some of these loans we have been able to place in the 504 program but there are some which were not eligible for 504 financing. Therefore these loans have had to be declined.

The loan volume reportedly exceeds $600MM which thereby demonstrates the demand for access to piggyback loans and loans over $750,000.

If the Administration moves forward with the proposed overhaul of the 7(a) program into one which closely resembles the SBAExpress program with a 50% guarantee, the small business community will be greatly impacted as the major 7(a) lenders will move out of the program leaving it largely to national banks who are only interested in funding very small SBA loans to meet CRA requirements. These institutions are not interested in SBA lending for the long term, and the program becomes very vulnerable to the credit whims of the large banks.

The lending institutions that have devoted the time and manpower over the years into learning and supporting the SBA and its programs are the ones that are being penalized by the proposed changes. We utilize the 7(a) program for startup companies, growth companies and mature-declining companies who are re-inventing themselves. We also use the 7(a) program for single-purpose properties such as motels, convenience stores and car washes – industries that struggle for access to loan funds and usually exceed $750,000.

The lenders are not opposed in general to a zero subsidy or reduced subsidy program; but it must be done in a manner that maintains the integrity of the program and the marketability of the program for the lenders to its borrowers. The 7(a) program is one of the few government programs that generate a measurable impact on the growth of small businesses nationally; all for only a 1.06% subsidy.

Please consider the negative impact the overhaul of the 7(a) program will have on small business owners, borrowers and lenders alike. We ask that you consider the reinstatement of the SBA 7(a) program to its original state, removing the cap of $750,000 and allowing the reinstatement of piggyback loans.

Respectfully,

Judi Harvey

Judi Harvey
SBA Processing Manager
Community South Bank
Knoxville, Tennessee
865-546-1176

Community South

625 S. Gay Street, Suite 450
Knoxville, TN 37902
Phone: (865) 546-1176
Fax: (865) 546-9726

February 23, 2004

Senator Olympia J. Snowe
Chairman, Senate Small Business and Entrepreneurship Committee

Re: SBA FY 2005 Budget Hearing

Dear Senator Snowe:

I am writing to express serious concern to the recent changes to the SBA 7(a) program, and also to the proposed changes going forward. As you are aware, the recent 7(a) shutdown and subsequent moratorium on piggyback financing has severely limited access to capital for innumerable small business owners throughout the country. The restrictions to the 7(a) program have caused small business owners and lenders alike to shift focus to other government guaranteed programs. The problem is the vast majority of other financing programs do not meet small business owners' needs like the 7(a) program could. Capping the 7(a) program at $750,000 has had a direct and absolute negative impact for small business owners in need of financing for real estate acquisitions, expansions, and refinancing, among several other purposes. Other programs, such as the 504, have much more restrictive lending guidelines and completely prevent small business owners from obtaining working capital access. In addition to preventing small business owners from obtaining capital, programs such as these involve a much more cumbersome process and are not nearly as profitable from a lending standpoint.

Although the recent shutdown to the 7(a) program denied a reported $600,000,000 to small business owners, my concern lies with the changes to the program going forward. If the Administration moves forward with the proposed overhaul to the program whereas guaranties will be reduced to 50%, it will force many lenders away from the program almost immediately, as the small to intermediate lenders cannot risk this amount of exposure. Furthermore, the lending institutions that will proceed with a 50% guaranty will choose not to make loans of any significant size, effectively creating the same problem that we already have. The lending institutions that have devoted the time and resources through the years into learning and supporting SBA and its programs are the very ones that are being penalized by the proposed changes. I do not see the proposed changes as any type of solution. At some point, every small business throughout the country is going to be affected by the restriction of access to capital.

Thank you for giving lenders such as myself an opportunity to voice concern.

Sincerely,

Alan J. Hice
Asst. Vice President

Statement of Pete Homer Jr., President/CEO
National Indian Business Association
Washington, DC

Statement to the Senate Committee on Small Business and Entrepreneurship
"The President's FY2005 Budget Request for the SBA"

February 12, 2004

Thank you, Mr. Chairman and members of the Senate Committee on Small Business & Entrepreneurship and the Senate Committee on Indian Affairs. On behalf of the National Indian Business Association (NIBA), I would like to thank you all for the opportunity to testify today on this very important legislation, the "President's FY2005 Budget Request for the SBA". NIBA looks forward to working with this Committee to ensure that the critical programs and initiatives authorized and supported by this body are funded at levels which will ensure their long term effectiveness.

My name is Pete Homer, Jr., a Mojave Indian, enrolled member of the Colorado River Indian Tribes of Arizona. I serve as the President and CEO of the National Indian Business Association, a National Trade Organization established in 1992 to promote Native American Business development through education, communication and advocacy. NIBA represents 24,000 Native American owned businesses nationwide. Our mission is to stimulate business development, job creation and economic activity within Native American communities.

On February 2, President Bush proposed a $2.4 trillion budget for FY 2005 that included level funding and numerous decreases for Indian programs, including the proposed elimination, for the second year in a row, of Native American outreach programs at the SBA. In 2002, the Bush administration dismantled SBA's only Native American outreach program – the tribal business information centers (TBIC's) – and for the last two years has proposed to eliminate all Native American outreach at the SBA.

As you are aware, socio-economic statistics pertaining to Native Americans remains grim. Even today, many Native American businesses are still without adequate training and technology to compete and do business with the private sector and the federal government. Yet in spite of this, there are some bright spots on the horizon for Native American Business development. The explosive growth and demand for information technology and business e-commerce continues. Overseas businesses often fill the void in US based information technology businesses, while the potential resources of Native American businesses on and off Native American reservations are overlooked. Among the problems cited by Native American businesses is that there are few training and technical assistance centers, mentor or incentive programs that focus specifically on assisting the development of Native American businesses. It is this void that drives NIBA to bring this issue to the forefront.

Sustainable small business development in Indian Country remains as the engine for new job creation and economic growth. Given the current fragile state of the economy, this is no time to further weaken much needed small business resources. Increasing funding for outreach programs for Native American can create a bright future for Indian Country, if given a chance. It will increase Native American participation in SBA programs such as Tribal 8(a) and HUBZone programs. The current jobless rate in Native communities is between 45 percent and 80 percent, incomparable to the U.S. national average of 5.6 percent. The earning capacity of Native Americans lags behind that of other Americans, and in this day in age this should never happen. NIBA strongly believes that job creation through small business development is the key to lowering this jobless rate. If there are no outreach programs at SBA, that service the Native American population, then how are these aspiring entrepreneurs supposed to compete? If there is no money set aside in the President's FY 2005 budget for these programs, then there will be a major disservice to Indian Country and its aspiring entrepreneurs and current small business owners.

The re-establishment of Tribal Business Information Centers (TBIC's) in Indian Country would serve as the central focal point for training, technical assistance, education, e-commerce development programs and technical assistance services with the goal of expanding the number of Native American businesses and creating jobs for Native Americans. To cut or reduce funding for Native American outreach programs at SBA, is to lower the chances in Indian Country for job creation and self-sufficiency.

Chairman Kerry and Senator Snowe, we thank you, and other members of the Committee. Thank you for allowing me to present testimony on behalf of NIBA. NIBA appreciates the Committee's consideration of its views. I would be glad to respond to any questions the Committee may have.

HUBZONE
CONTRACTORS NATIONAL COUNCIL

February 23, 2004

To: **U. S. Senate Committee on Small Business and Entrepreneurship**

Subject: **For the Record Comments on the SBA's FY 2005 Budget**

The SBA's FY 2005 budget submission continues the trend of inadequately funding the HUBZone Program. During these times of the "jobless recovery" from the recent recession, HUBZones have been hit harder than the more prosperous areas of our Nation. This Council cannot understand why the Administration has proposed $6.6M for FY 2005 which is down from the FY 2004 level by 7%. We understand in times of fiscal restraint all spending must be closely controlled. However, we note that several other SBA Procurement Opportunities Programs received significant increases for FY 2005. These are shown in the table below.

Program	FY 2004 ($M)	FY 2005 ($M)	% Increase
8(a) Program	34,794	37,636	8.2
Small Disadvantaged Business	5,061	5,383	6.3
Subcontracting Program	6,493	7,070	8.9
BusinessLinc	139	149	7.2

Just as troubling as the continued downward trend in HUBZone funding is the absolute value of HUBZone funding. Today there are over 9,000 certified HUBZone firms. The FY 2005 budget proposes only $740 per HUBZone certified firm. Similarly, today there are only 7,309 certified 8(a) firms. The FY 2005 budget requests $5,149 for each 8(a) certified firm! Accordingly, the SBA spends seven times more on each 8(a) firm than it does on each HUBZone firm!

The SBA is willing to spend seven times more on 8(a) firms than on HUBZone firms while year after year the Federal Government misses its statutory minimum level of HUBZone contract awards. The HUBZone goal for FY 2003 and beyond is 3% of total contracting dollars.
FY 2002 is the most recent year for which data has been published. In FY 2002, the Government achieved .71% in HUBZone contracts--less than one quarter of the current goal—yet HUBZone funding is reduced in FY 2005. The HUBZone Program is about jobs! It is about jobs where we need them most—where unemployment is particularly high or wages paid are particularly low and poverty persists decade after decade. By targeting Federal HUBZone contract awards to America's HUBZones, we can make a big difference and dramatically improve the quality of life for millions of Americans!

We urge the Congress to increase HUBZone funding to $15M for FY 2005.

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(703) 963-7595 (240) 465-0418 fax
www.hubzonecouncil.org hubzonecouncil@aol.com

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JAN SANDHOUSE HURST, PRESIDENT
303-913-1744
JSHCOLUSA@AOL.COM

February 11, 2004

The Honorable John F. Kerry
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Kerry:

In reviewing the recent 2005 budget request submitted by the President, I was disturbed by a change in reference to SBA's deliverance of assistance to small business exporters in the U.S. The SBA's FY05 budget request has eliminated the line item funding for SBA Trade Finance Specialists in the U.S. Export Assistance Centers (USEAC). **I strongly feel the elimination of funding for SBA's International Trade Finance Specialists, who provide critical technical assistance to lenders and exporters, would adversely impact access to capital by American exporters and thereby diminish their competitiveness in foreign markets.** Having nearly twenty years of experience in trade finance, I can assure you that it is a highly specialized area, and one not likely to be effectively filled by personnel without extensive knowledge of its specialized characteristics.

The narrative in the budget makes it clear that SBA intends to deliver trade finance assistance to small business exporters and lenders desiring to learn how to participate in SBA's trade finance guarantee programs through Small Business Development Centers, Women's Business Centers, SCORE and the SBA District Offices. While Small Business Development Centers (SBDC), SCORE, Women's Business Centers, and even SBA District Offices may provide useful technical assistance as business generalists, unfortunately they do not have the necessary technical expertise in trade finance.

United States Export Assistance Centers (USEACs) were established to assist U.S. small and medium-sized exporters (SMEs) in entering or expanding in foreign markets by making it easier for exporters to obtain necessary information and assistance. These offices house the Commercial Service of the Department of Commerce, along with the trade finance specialists from the SBA in several locations. This "one-stop " approach to assisting exporters has been very successful and has made it easy for American exporters to access needed information in one location. In FY 03, SBA personnel in the USEACs nationwide facilitated $488 million in loans to over 1600 American exporters. Those exporters have reported over $1 billion in export sales.

District Export Councils (DEC) are organizations of leaders from the local business community, appointed by the Secretary of Commerce, whose knowledge of international business provides a source of professional advice for local firms. DEC members have worked closely with the government agencies housed in the USEACs to supplement the resources available to American companies that are entering or expanding their export market. As a result, DEC members can verify that SBA personnel in the USEACs are a critical component of the export process, as they assist SMEs in obtaining essential working capital to facilitate their export sales.

Today the U.S. has a record trade deficit. More than 96% of the U.S. exporters are small or medium-sized businesses (SMEs), and access to working capital is more difficult for these exporters. It is essential that the U.S. government provide assistance to SMEs to increase exports, and the current USEAC structure, including SBA's trade finance personnel, is the most efficient source of the expertise needed to compete in world markets.

As Chair of the Rocky Mountain Export Council, as well as a trade finance professional, I urge your support in retaining the funding for SBA's continued participation in the USEACs.

Sincerely,

Jan Sandhouse Hurst
President
The JSH Group, Inc./TradePros International

Chair
Rocky Mountain Export Council

RJ Engineering Systems
Global Industrial Solutions

Feb 12, 2004

The Honorable John F. Kerry
Ranking Member
US Senate Committee on Small Business & Entrepreneurship
428A, Russell, Senate Office Building
Washington, DC - 20510
Tel: 1-202-224-8496
Fax: 1-202-228-1814

Sub: **Value of SBA, Export Services**

Dear Senator Kerry

We are a small business in Cedar Rapids, Iowa. We are a 100% export company. We offer custom solutions for oil and gas industry. Our core strengths are controls & automation, special metals and process packages.

We are running into 7th year of our operation. We were also active with in the domestic market in USA till 2001. We had to phase out our domestic operation because of the soft economy. We then restructured into a 100% export unit.

We received enormous help from SBA in our restructuring plan. The US Export Assistance Centers have highly trained and accomplished individuals. They guided us every step of the way to help secure our financing.

We have dealt with other agencies also in past such as SBDC, SCORE etc.. In our opinion, USEAC possesses the skill set so essentially needed for our kind of business.

RJ Engineering Systems, inc.,
849, 33rd Avenue, SW
Cedar Rapids, Iowa - 52404, USA
Tel: Day 319 396 5470, Eve 319 390 4322
Fax: Day 319 396 5464, Eve 319 390 3408

RJ Engineering Systems

Global Industrial Solutions

Feb 12, 2004

To sum up, our business grew 50% in exports from 2002 to 2003 (Year 2003 revenue, USD 2.275 million). We could not have done it with out the help of SBA, Export Assistance Centers. Thank you, please feel free to ask if we can offer any additional information.

Sincerely.

Rakesh Jain, President

ipm TECH

Chairman
Oregon District Export Council
U.S. SBA: U.S. EXPORT ASSISTANCE CENTER
One World Trade Center, Suite 242
121 SW Salmon Street
Portland, Oregon, 97204 USA

Tuesday, February 10, 2004

RE: Export Finance Support

IPM Tech will celebrate our 10th year of being in business later this year. We specialize in the research and development of insect pest management products. We are focused on developing technologies that manage insects by manipulating their behavior. These products use pheromones and other attractants. IPM Tech is recognized globally as a scientific leader in this field, and we have been awarded over $3.1 million since 1998 in Small Business Innovation Research grants from USDA, NIH and the US Army.

Like many technology companies, IPM Tech is very capable in science, and less skilled at the business of business. The company is thinly financed and our business model does not easily fit the standard framework required by the few banks that still work with small business. Our products target agriculture and forestry markets with seasonal cash flow. Unlike many small businesses, IPM Tech is very active in export markets and about 35% of our revenues are derived from foreign markets, including Europe and Africa. These exports contribute significantly to the sustained employment of seven full-time and four part-time staff in Portland, Oregon and two full time staff in Raleigh, North Carolina. The company is growing.

Since 1999, IPM Tech has been fully supported by the Export Finance Manager from the US SBA Export Assistance Center in Portland. We have had one SBA-guaranteed Export Working Capital loan through Key Bank in 1999, and two SBA-guaranteed Export Working Capital loans through Albina Bank in 2001. These loans made it possible for IPM Tech to export over $400,000 of product to Africa and Europe. IPM Tech would not have been able to get this financing without comprehensive assistance from the Export Finance Manager. This SBA officer spent considerable time leading and helping both IPM Tech and each Bank with the process. We had help in assembling the financing team, completing the forms, and completing the package. With the second two loans, we were against a very tight delivery time table, and the Export Finance Manager made sure that our application did not get lost at the Bank or within SBA. This is the only project financing that IPM Tech has obtained to date.

There are very many small companies like IPM Tech. Companies that have technical excellence and less experienced management. These companies are an important engine in today's economy, and a critical foundation to future economic growth. But these companies do not have skilled financial officers, or business structures that facilitate easy financing. I cannot emphasize too strongly how important the SBA Export Finance Manager has been to the ongoing survival and growth of my company. I strongly encourage Congress and the SBA to continue funding this program.

Please feel free to call me at any time if you want to discuss this letter (503-819-2269, cell).

Sincerely,

Philipp Kirsch
President and Entomologist
pkirsch@ipmtech.com; www.ipmtech.com

February 10, 2004

The Honorable John F. Kerry
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

As a member of the Missouri District Export Council, I must confess that I was upset to learn that there is consideration in Washington to remove the SBA offices from the U.S Export Assistance Centers (USEAC). Simply put, this is a catastrophe waiting to happen. NO ONE knows small business financial need like the SBA, and there is no greater "partnership" between government and small business than having the SBA's resources available to businesses at the local USEAC office.

1. Small businesses and small business groups utilize the U.S. Export Assistance Offices as a meeting and focal point for international business development. Segregating the international Finance Office from this activity would increase the burden to small business and small business groups. Having a "one stop" shop or location increases the exposure of business to our government agency partners and promotes the expeditious completion of projects.
2. Small businesses typically do not have the resources or time to meander through the maze of government agencies. The common shared location and efforts towards international business development provides a more centralized means of coordinated project focus and management. Segregating these shared efforts will have a negative impact on small business resource management.
3. From my experience, the US Export Assistance Office staff work closely with the SBA's International Finance Specialist to expedite timely information to ensure the successful completion of projects. Without this close internal working relationship, projects are almost impossible to coordinate and complete.

4. International Finance is completely different for the small business community than typical SBA programs. Specifically, the Export Working Capital Program requires a specific skill set and expertise that is not available with other business support groups within the business community such as S.C.O.R.E. Many of these organizations have great intentions. Unfortunately having great intentions does not necessarily place the small business exporter

any closer to the reality of developing a business plan and then executing the crucial phase of funding the projects.

5. The International Finance Specialist needs to be a part of the pulse of what is going on a global, regional and local business level. The USEAC offices serve as a central command or hub of information related to small business export opportunities. It is their day to day interaction with the SBA's international Finance Specialist that provides an environment that offers small business with crucial timely intelligence within the global economy.
6. Small businesses cannot afford the risk of making poor decisions with their export projects development. Neither can they afford making poor decisions regarding export financing. It is the combination of skill sets provided by the USEAC and SBA offices in one location that ensures that the small business owner is provided with the common support and assistance they need to succeed in international business.

My company has been in business for 78 years!! My company utilizes and NEEDS the assistance of the SBA, the U.S. Foreign Commercial Service and the U.S. Department of Commerce to help us stay in business for the NEXT 78 years. The service provided by these agencies CANNOT be replaced…period! Believe me, I have tried a number of other resources, but NONE have proved as reliable or as effective.

Senator Kerry, I am not certain whether or not our government agencies really listen to the small business community. I can tell you that in my personal experience, the USEAC and SBA International Finance Specialist "team" does listen. They have been there to provide timely support and information that has allowed us to make sound decisions.

Respectfully Submitted,

Ernest Knight
Director International Sales
PlayPower, Inc.

Basic Business Concepts, Inc.

412.231.8441
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February 25, 2004

U. S. Senate Small Business Committee
Olympia Snow, Chairman
John Kerry, Ranking Member

Re: SBA Budget Hearing

Dear Senators:

Continued, sustained economic recovery depends on the health of small business. The health of small business requires a viable SBA Program. Viable means both adequate funding and accessibility. This means an SBA Budget and subsidy funding that support:

- Full $2,000,000 per borrower loan program at a 75% guarantee rate;
- Technical support services in regional locations;
- Fees and costs charged to the lenders and borrowers the same or less than they were in 2003;
- Full restoration, to 2002 level, of all aspects of the 7A, 504 and Export Lending guidelines.

As president of Basic Business Concepts, Inc., a firm that provides a chief financial officer function to small companies, I work with as many as fifteen small businesses at a time and hear their concerns. I am also part owner of a flashlight manufacturing company in Pittsburgh, Pennsylvania.

Sincerely,

Marilyn D. Landis

Marilyn D. Landis

700 River Avenue, Suite 336 • Pittsburgh, PA 15212

CALIFORNIA OAKS
STATE BANK

February 19, 2004

VIA FACSIMILE
202-224-4885

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Attn: Sarah Martin

The Honorable Olympia J. Snowe:

California Oaks State Bank is a small, independent commercial bank with assets under $100 million. We are located in Thousand Oaks, California, in Ventura County, northwest of Los Angeles. I, personally, have been involved in SBA Lending for 30 years.

Last year (12 months through 9/30/2003), the Bank closed 25 SBA loans. This volume included 11 LowDoc loans and 8 SBAExpress loans. Our average SBA loan is approximately $150,000. Loan proceeds were used for start-up expenses, expansion, working capital, machinery and equipment, and the acquisition of existing businesses. None were used to purchase commercial real estate, which I consider a lower-risk type of lending. In my opinion, we use the SBA programs for the purpose it is intended, to provide capital to small business owners that is not available under traditional lending programs.

We chose to utilize the LowDoc program for the 11 loans closed due to the higher guaranty (85%) available, rather than the SBAExpress program. Of the 11 LowDoc loans, I can truly say that 6 would NOT have been made with a 50% guaranty. Of the 6 loans made, one was to a woman-owned business that started her own photography business in Thousand Oaks.

I would be in support of restructuring the SBA Loan Programs to achieve a zero subsidy rate. However, I don't support a maximum 50% guaranty program. This would simply be throwing the baby out with the bath water. It would close the door regarding an access to capital for small business owners that truly need the assistance for non-real estate purposes.

I believe that the SBAExpress program is being primarily utilized throughout the industry to provide capital to small business owners based on a credit-scoring basis. In other words, it is more character and high-credit score driven and available to a very small percentage of the business owners that need it. It does not clearly represent an access to capital for the average small business owner for the purposes listed prior.

51 WEST HILLCREST DRIVE, THOUSAND OAKS, CA 91360 TEL 805-496-6774 FAX 805-496-0014 www.caloaks.com

My better idea would be to base the guaranty rate on the risk involved. For example, the 50% guaranty rate is fine for SBA loans used for the acquisition and refinancing of commercial real estate. However, I strongly feel that we need the 85% rate for working capital that is not real estate related. We are able to use a formula for determining the maturity of SBA loans based on the use of proceeds; I am certain that we can use a similar formula for determining a guaranty rate based on use of proceeds.

I strongly feel that this type of structure would still provide an adequate source of capital for our small business community. Thank you for your time.

Sincerely,
CALIFORNIA OAKS STATE BANK

F.E. Lomeli, V.P.

Frank E. Lomeli
Vice President
SBA Manager

Cc: The Honorable Lois Capps Via Facsimile 805-730-9153

EXPORT COUNCIL OF OREGON
&
SOUTHWEST WASHINGTON

The Honorable
Peter DeFazio
U.S. House of Representatives
151 West 7th, Suite 400
Eugene, OR 97401

July 7, 2003

Dear Congressman DeFazio:

I am writing as the Chair of the Export Council of Oregon and Southwest Washington to request your assistance on an issue of critical importance to small and medium-sized exporters in the region. Specifically, I want to solicit your support for retaining a line item in the Small Business Administration's (SBA) 2004 budget that continues the funding for SBA export finance specialists in the multi-agency U.S. Export Assistance Centers (USEAC's) located throughout the United States.

Our Council is made up of leaders from the local business community, appointed by the Secretary of Commerce, whose knowledge of international business provides a source of professional advice for local firms. In this capacity, our Council members work closely with the United States Export Assistance Centers in Portland and Seattle to assist American companies in entering or expanding their export markets. These offices contain representatives from the SBA and U.S. Department of Commerce's Commercial Service that, along with other represented agencies, have programs to assist small and medium sized exporters. The SBA staff in these offices support small exporters in the Pacific Northwest from Alaska to Montana.

One of the main agencies located within the USEAC is the Small Business Administration. Their specialists offer working capital and trade finance programs that are often critical to small businesses for completing export transactions. With increasing consolidation in the banking industry and credit decisions made elsewhere, these programs and the ability of SBA representatives to act as advocates for bankable "deals" with an SBA repayment guarantee serves a vital role for our local companies. The SBA representatives are also experts in other government and private sector financing and insurance options and, as such, offer a resource that enhances further the ability of our local firms to compete internationally.

The budget line item that we are seeking to have reinstated has been included in SBA's budget for the past five years. In fiscal 2003, this line item ($3.1 million) for SBA participation in the USEAC was eliminated in joint conference, despite being included in both House and Senate budget proposals. Without the line item, it is our understanding that the SBA Representatives in the USEACs will be returned to the local SBA District Offices and assigned duties unrelated to trade finance. This will result in termination on the SBA role in the USEACs and impact adversely our small business exporter's access to capital.

With our record-breaking trade deficit and high unemployment, we should not work to further hamstring our most dynamic, job-creating enterprises. In FY 2002, SBA USEAC Representatives facilitated over $200 million in loans to American exporters, who reported over $600 million in export sales – a worthy track record. In Oregon alone, it is estimated that over five thousand firms are engaged in exporting that meet SBA's definition of a small to medium-sized business. Reinstatement of this line item will help to assure their continued success in global markets.

I hope that we might count on your support. Thank you for your consideration.

Sincerely,

Tom Lowles

Thomas Lowles
Chair
Export Council of Oregon and S.W. Washington

One World Trade Center 121 SW Salmon, Ste. #242 Portland, OR 97204
Phone: (503) 326-3001 Fax: (503) 326-6351

KWAPLAH INTERNATIONAL, INC
Procurement & Int'l Development Consultant Services
425 S.W. Madison Avenue, Suite U, Corvallis, Oregon 97333 (USA)
Procurement Service Agent
Telephone (541) 757-6546 Fax (541) 752-6432
E-mail: Kwaplah_International@msn.com

February 10, 2004

The Chairman
Oregon District Export Council
US Export Assistance Program, SBA
One World Trade Center, Suite 242
Portland, Oregon 97204

Chairman:
I am the owner of Kwaplah International, Inc., a disadvantaged and minority owned small business that provides international procurement and development consulting services, predominantly to African countries. I established this firm in 1993 while attending at Oregon State University. One major obstacle that I faced over the years was the lack of sufficient working capital to finance export procurement projects. I contacted several banks and almost all of them refused to provide significant credit line to execute any meaningful projects despite the fact that these projects were funded through the World Bank, UNDP and USAID. The lack of adequate working capital impeded our growth until two years ago when I contacted the Export Finance Assistance Program in Portland. The SBA Team came to my office and we discussed in detail what I needed to put in place in order to qualify for the export assistance program. We identified potential banks that have good historical working relationships with minority and disadvantaged startup businesses. Within couple of months, we were able to obtain a commitment of $350,000.00 to finance our export operations. Consequently, our revenue grew nearly 300% last year and we employed three procurement assistants. We anticipate our export revenue to exceed $1.2M dollars in FY04.

Therefore, the services provided by the staff of Export Assistance Center in Portland have been extremely beneficial to business like ours. Without the assistance of this program in linking us with the appropriate institutions and guiding us through these processes, our business would have failed. It is vital that the Export Assistance Office in Portland remains opened. I am writing to appeal to the Council to keep the Export Assistance Center in Portland opened. There are may startup businesses that need the services provided by this office such that its closure with adversely impact them specifically, but also the economy of Oregon at large.

I hope that this appeal will be granted due consideration and if you need any further information, please do not hesitate to contact me at your convenience.

Best regards.

Sincerely yours,

Sherlock B. Mahn
President

ENTERPRISE
DEVELOPMENT
CORPORATION

February 10, 2004

Senator John F. Kerry
Ranking Member
Committee on Small Business and Entrepreneurship
424B Russell Building
Washington, DC 20510

Re: Letter of Support SBA BusinessLINC Program

Dear Senator Kerry:

Thank you for the opportunity to submit this information concerning Enterprise Development Corporation's ("EDC") implementation of the BusinessLINC program in South Florida and to share with you the results of almost three years of program implementation. EDC leads a coalition consisting of many of the local economic development governmental and community organizations to provide BusinessLINC services to our area. As a non-profit organization that facilitates the creation and growth of emerging companies, EDC is deeply committed to the growth and economic viability of our region. We are a public/private partnership actively engaged with the local business community including noteworthy companies such as Office Depot, Citrix, AutoNation, BellSouth and KPMG who serve as members of our Board of Directors. Also serving on our board are members of the academic community representing the local colleges and universities including Florida Atlantic University, Florida International University, University of Miami and Nova Southeastern University. These members have played a larger part in BusinessLINC by providing access to professors and students who assist the protégé company with product development through their colleges of engineering, business and medicine.

We have been administering this program since September 2001 and were one of just a few organizations to receive a third year of funding in September 2003. Through December 31, 2003 we have established 162 linkages between mentors and protégés. Protégé companies have increased revenues $7.6M, created and retained 623 jobs, raised 17.8M in capital, received 3 government contracts and 4 contracts have been entered into between mentors and protégés for a total dollar value of $950,000. This information reflects traditional economic development indictors we use to measure our program performance. We also refer protégés to our local SBDC regarding 8(a) certification and SBA loan applications. The primary goal of this initiative is to effectively reach out to the underserved, economically disadvantaged business community. This coalition is comprised of many varied and geographically dispersed service and educational organizations through out the South Florida area. Working together through this initiative we are able to reach a broader and more diverse audience. Our protégé pool consists of entrepreneurs from South Miami Dade County throughout the Treasure Coast. Of the 162 linkages made, 51% are disadvantaged businesses with 24% of these located in Hub or Enterprise Zones. Of these disadvantaged businesses 40% are women-owned, 5% are Native American owned, 24% are Black owned, 21% are Hispanic owned and 10% are Other minority owned.

To follow are some examples of actual protégé performances throughout this program.
Contracts between Mentors and Protégés (all three are minority owned)

- **Cornerstone Paving** -The protégé was awarded 2 contracts with Broward County through their minority certification program totaling $800,000 as a sub contractor to their mentor.

- **J&J Lamar Construction** – This protégé is located in an Enterprise Zone and through their mentor, Centex Rooney they have become a subcontractor for one of their contracts totaling $150,000.

- **Office Gap** – This protégé is a Native American woman who has developed software that assists larger institutions such as hospitals and schools in the retirement of their assets. She entered the program to receive assistance with Intellectual Property protection for her product and on how to negotiate a software contract with a third party. She also wanted a mentor from a hospital that could evaluate her software and provide pilot testing of her product. The North Broward Hospital district was assigned as her mentor. They have entered into an agreement and are implementing her program at a couple of their hospitals.

Capital Raised, Government Contract and SBIR

- **Nova Vision** –This protégé company offers vision therapy to reduce blindness. They entered the program in hopes of raising capital needed to open a clinic, hire employees and purchase equipment. EDC made 2 introductions to potential funding sources Crossbow Ventures and Noro Mosely. Crossbow Ventures became their mentor. Both sources submitted term sheets and in Q4 of FY03 they closed on $6M. As a result of this funding NovaVision hired 12 employees and moved into larger office space.

- **VisionsEast** –This protégé company developed robotic painting technology for large yachts and ships. He had interest from large ship builders in using his product, if he could get a prototype built for demonstration. Unfortunately the protégé didn't have the money to build a prototype. The protégé attended EDC's Emerging Technology Business Showcase held in November 2002 as a guest of EDC. The conference attendees include local business leaders, service providers and investors. While at this conference he was introduced by EDC to Mark Kamp of Edwards and Angell, a VC law firm and an EDC board member and mentor company. Mr. Kamp has contacts in the shipping industry and was able to find an investor for the protégé. As a result in **Q3 of FY03** VisionsEast was able to raise the $2M needed for the prototype. This protégé has aided other maritime related protégés through strategic planning discussions and introducing them to his investors.

- **Interfuse Technology** –This protégé received an order for 50 licenses of their product from Edwards Air Force base in January 2003 for $600,000. In **Q3 of FY03** they began working with an FAU professor for an SBIR grant. Throughout **Q4** they continued to work on the SBIR opportunity and received a contract worth $85,000 from the US AirForce and are working on opportunities at 13 other Air Force installations. They are working on becoming a part of the AirForce Common Operating Environment of COE. Success would mean having their product Office Lock on every USAF PC. They have also been approved as a small business supplier to the federal government and received a positive report from DARPA (Defense Advanced Research Projects Agency) for participation as a security provider in Patriot Act programs.

- **AirTaxi Distribution Systems** is a technology company that has developed a reservation system for private airports and has received a commitment from the Federal Government for a contract in the amount of $100,000 with more to come. Through their participation in this program and working with their mentor they were able to complete their product to make it attractive to the government. Additionally as a result of their ability to attract Government contracts, several investors they have met either by direct EDC introduction or through networking at EDC events have shown interest in investing in their company. This investment would allow them to continue product development and increase personnel.

The successes above could be measured numerically however there are many other non-numerical benefits of this program. In many cases protégé companies are in need of business services that they cannot afford. Through this program we are able to assign them to mentors that provide their services free of charge. These service providers include some of the most prestigious legal and accounting firms in the South Florida area. Other examples of protégé activity include;

- **Zyanne Corporation** – Zyanne Corporation (black woman owned 8(a) certified business) has invented a multi-tool for the marine industry. The US Navy and Coast Guard have shown interest. But to become a GSA schedule contract provider he had to have sales in excess of $25,000. At best he had a marginal prototype, no inventory, no business plan and no capital to invest. Their mentor, The Langley Group, a consulting firm with ties to the marine industry told the protégé that they needed a business plan immediately. With no funds to hire someone to write it for them, and through collaborative efforts of the mentor, EDC and SCORE, a business plan was put together. Their mentor then found a manufacturer would produce a small quantity of the tool gratis. They have begun test marketing.

- **Perkins and Henderson** – This protégé is an American Indian woman owned company that has invented a conduit for electrical systems. The protégé needed help with their patent process and needed an attorney to answer some questions and assist them with determining if there was another patent that would prevent them from filing their patent. Mentor Greg Nelson of Akerman Senterfitt, a premier patent law firm in South Florida, provided the services requested and required from the protégé in this regard. According to the agreement that Mentors sign when they enter this program, they are only obligated to provide 15 hours of "free' service. Mr.

Nelson provided at least 30 hours of time during this process. The billing rate for his time is $250 per hour. The protégé received $7,500 worth of legal work for free. A couple of months later the protégé had some questions regarding the incorporation of her company and Mr. Nelson answered these questions as well.

- **Front Seat** This protégé is being mentored by Streetwise Solutions who specializes in putting together strategic alliances. Front Seat has created technology for NASCAR that allows fans to rent a PDA handheld device and watch the action through the cameras in the driver's car and also allows them different views. The protégé had patented the technology and was entering into an agreement with Motorola to provide some of the technology and hardware. Their mentor was able to negotiate with Hewlett Packard to provide some needed hardware on a contingency basis and also has been able to secure interested investors. He is currently finalizing the negotiations with NASCAR on the protégés behalf. This mentor has provided almost daily assistance to the protégé.

EDC and their coalition partners have demonstrated the value of the BusinessLINC program and are proof of the impact it has made upon the South Florida business community. We wholeheartedly believe that further funding should be allocated to this program so that South Florida can compete in the global marketplace. We see the success everyday in large and small ways. We hope this information aids you in your endeavor to continue funding for this program. EDC looks forward to continuing our participation in the BusinessLINC program on behalf of the entrepreneurs of South Florida.

Sincerely,

Lori Metcalf

Lori Metcalf
Director of Operations
Enterprise Development Corporation

Foothills Sanitation Recycling, Inc.
P. O. Box 2716
NORTH WILKESBORO, NC 28659
Phone: (336) 667-4432
Fax: (336) 667-9301

The Honorable John F. Kerry
Ranking Member
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

As a small business owner in NC with a Small Business Administration's (SBA) Export Assistance Centers (USEAC's) 7A loan. with out this loan our continued growth would be hard to do, now we can export our products and market in a world economy as well as our own economy.

1. it has come to your attention that the SBA presence will be withdrawn from the US Export Assistance Centers in the 2005 budget This does not need to happen

2. This program with a budget of less than $3,000,000 cost less than $60,000 per state. This is a very small price for small business assistance.

3 There is no way SCORE or SBTDC can deliver this program.and make it work for the small businesses.

4. The one- size- fits- all school of lending does not work for small businesses in Rural NC. ever small business differ in there own funding needs

5. the SBA in the USEAC's generated over 1 billion dollars in export sales last year. Look at these numbers had it not been for SBA USEAC a lot of small businesses would have close there doors and cost a lot of jobs. the SBA USEAC representatives help with Export questions and they know where to go and get the answers to help small business grow. cutting the funding will hurt the economy and the growth of business here in NC and else where in the USA. we have been hurt with business leaving NC and the USA we don't need the Government to but a cap on things that work for us.

As of September 30, 2003, the following outputs were achieved in FY 2003 by SBA USEAC representatives:

- 4333 small business counseled on trade
- 336 training events held for 8685 small businesses on export financing and technical assistance
- 243 training events held for 3810 lenders on export financing
- 199 trade events participated with 17893 small business
- 71 Export Trade Assistance Partnership (ETAP) programs initiated with 1006 small business participants
- 77firms recruited for trade shows/missions
- 1065 banks visited for outreach
- 181 borrower profiles compiled
- 90 success stories on small business exporters written.
- Total export sales supported by: Loans= $1,020,574,900 Technical

Assistance= $110,368,700 Total= $1,130,943,600

As you continue to work on the FY 2004 Commerce, Justice, State, and Judiciary Appropriations conference report, we request your support to maintain the Senate's $3.1 million appropriation for the Small Business Administration's (SBA) Export Assistance Centers (USEAC's). These centers are critical to creating jobs and revitalizing our economy.

Funded since 1999, Export Assistance Centers are an interagency network of one-stop centers specifically focused on assisting our small business exporters by offering them several financing programs and by assigning 20 export finance specialists to the USEAC's to mentor these companies and guide them through the export finance process. These centers have proven invaluable to our small business community, the backbone of our economy.

In addition to producing 29% of the known export value in FY 2001, 97% of all identified exporters are also small businesses. Unfortunately, while other countries have made increasing exports their top national priority, America is falling behind as many of our big banks choose not to lend to small business exporters. We must assist our small businesses in exporting products overseas to keep jobs here in the U.S.

USEAC's $3.1 million appropriation supported 458 loans last year, resulting in $616 million in export sales, nearly a 2,000% return on each dollar spent. Because each $1 billion in exports generates an average of 14,000 U.S. jobs, USEAC's can be credited with creating over 8,300 high quality jobs, paying on average 18% more then comparable wages at non-exporting firms. The $3.1 million for our small business exporters is a modest amount to invest in the economic future of America.
I therefore believe it is critically important for Congress to provide SBA full funding of the U.S. Export Assistance Center and the removal of the CAP.

The general condition of our great economy is growing; in part, I believe due to growth in exports. This international sales growth, as I see it, can be attributed to SBA programs that help small businesses explore and succeed in the global market place. If anything, Congress should be dumping resources into the SBA's division of International Trade and the U.S. Export Assistance Center's across our country, not reducing support or "Capping" the limits that are available in which to operate a small global business.

In conclusion, I believe my tax dollars have been very well spent in SBA's international trade finance programs. At a time when America is losing its isolationist way of doing business and expanding our great economy globally, it just does not make logical sense to drop the funding to a program that has made a huge impact on my firm's ability to expand internationally. Please expedite the funding of SBA's funding and especially the funding of the division of International Trade and USEAC's across the country.

Pass this on to other senators

Jeffery Miller

NC small business

rivergreen bank

February 19, 2004

The Honorable John F. Kerry
Ranking Member
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

Please accept this letter to confirm the International Trade Program is a resource used by small banks to assist clients to grow their business by exporting products. On two occasions I have used the services of John Joyce, Regional Manager for International Trade Programs, to assist my customers to successfully begin exporting their products, thus growing their businesses and in both instances creating jobs.

Rivergreen Bank is a new community bank located in Kennebunk, Maine. As a commercial lender at a small growing bank it is imperative that I have the resources available to assist my clients, and The U.S. Export Assistance Center is a very important service, to have available for my clients benefit.

Small business can no longer focus locally or even regionally and expect to maintain strong growth and create quality jobs. Many small businesses have to look to the global market to sell their products. The International Trade program enables Rivergreen Bank, a small community bank, to assist our clients in developing an export strategy as well as a vehicle (Export Line of Credit) to put into action. The program has been a tremendous benefit for Rivergreen Bank, our clients who utilize the service as well as our community.

If you have any questions or need additional information feel free to call me at (207) 985-9222 or my cell phone (207) 468-5099.

Thank you,

David N. Moravick

David N. Moravick
Vice President

February 23, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
Attn: Sarah Martin
SBA FY 2005 Budget Hearing
Statement for the Record

Chairman Snowe:

As a CPA, I'm concerned that many of the small businesses that are searching to expand, refinance existing debt, or are just in a start-up phase are being affected by the recent changes in the Small Business Administration's programs and some proposals under consideration. The $750,000 cap in the 7(a) program limits small businesses that want to expand their existing facilities and are in a growth phase. As you know, these businesses do not always have stellar credit, which is why they depend on the SBA guarantee to assist in obtaining financing for their expansion. Also, the cost of expansion and renovation can easily exceed the cap and cause lenders to limit the availability of loans to small business. In short, I don't think that $750,000 is enough to give small business the options they need when they approach their lenders. Small businesses that want to expand don't usually qualify for the 504 program, especially if they want to renovate older facilities and bring their manufacturing processes up to date. Sometimes, these businesses need working capital to expand, which isn't available through the 504 program. I'd like to see the $750,000 cap revert back to $2,000,000.

When the $750,000 cap was put in place by the SBA, the explanation that I remember hearing was that the program was too successful and that it couldn't be supported with the temporary spending legislation then in place. It seems to me that a successful government program that really supports the private sector is rare these days. Accordingly, the significant demand for loans could translate into economic recovery for many small businesses, small communities, and jobs for our citizens. The SBA program requires limited government subsidy and should be supported strongly if we expect the country to rebound from its economic woes.

I am also skeptical of the proposal to make the 7(a) program similar to SBA Express with a 50% guarantee. There are many alternative sources for SBA borrowers today, but I'm concerned that many of those sources will go away if the proposal is adopted. Many of the small SBA-specialty lenders could opt to leave the business, leaving the mega-banks like Bank of America and the super-regional banks like SunTrust (in our area) to make some minimal loans to meet Community Reinvestment Act requirements. The alternative lending sources for small business could dry up and thereby hurt the very sector that the program was designed to support.

What happens to the start-up businesses, the businesses that require special-purpose buildings, the mature small businesses that are trying to re-tool and re-invent themselves when these lending sources are limited or worse yet, are forced to leave the business? It seems counterproductive to me that your committee would consider any course of action other than to expand the most flexible of the programs, the 7(a) program, and increase the cap for small businesses.

Be aware that these decisions that your committee makes have significant impact on businesses and the families that rely on those businesses. Don't take a highly successful program and change it so dramatically that it can't serve the country and its small businesses.

Thank you for your consideration and for your efforts on behalf of small business.

Sincerely yours,

Jim Myers

Jim Myers, CPA
Knoxville, Tennessee

Michael D. Mynatt
1911 Cherokee Bluff Drive
Knoxville, TN 37920
(865) 609-7171

February 24, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Attn: Sarah Martin
202-224-4885 (fax)

Senator Snowe:

I wish to voice my displeasure with the recent interruptions in the Small Business Administration's 7(a) lending program. I feel that this program has been very successful in the cultivation of new business and expanding the entrepreneurial spirit that makes America great. The program is critical to creating new jobs in our country. The recent $750,000 cap on 7(a) loans places business expansion in great jeopardy. This is a time for the creation of jobs and expansion of our economy, not a time to eliminate programs to help job creation. I would urge you to reinstate this valuable tool so that our economy will spark and continue to grow, not flicker and fall into recession.

Further making substantial changes such as the proposal to overhaul the 7(a) program to resemble SBA Express will cause lenders to pull away from the program. This will cause the small business community much disservice and cause small business considerable less access to needed financing opportunities. The 7(a) program has been an excellent tool for startup companies as well as mature companies who are re-inventing themselves. This program is essential to provide funds for motels and convenience stores that are not popular with conventional lenders. Changing the program will likely harm not only small business people, but certain sectors of small business in general.

The SBA 7(a) program is one of the few government programs that generates measurable impact on the growth of small business and for that matter the County. I hope that you will assist us in restoring this valued program!! It is good for small business and it is good for America!

Sincerely,

Mike Mynatt

FIRST Commonwealth

Banking
Insurance
Trust
Financial Management
Investments

First Commonwealth Bank
Central Offices
Philadelphia and 6th Streets
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www.fcbanking.com

February 23, 2004

The Honorable Olympia J. Snowe, Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Dear Senator Snowe:

The stoppage of SBA funding in January was a severe blow to the customers of my bank, First Commonwealth Bank. We serve the central and western portion of Pennsylvania. Due to this stoppage, it took my department and bank between five and six weeks to fund loans where the normal turnaround time is one to two weeks. Our SBA loans average only $100,000, and we serve mostly rural Pennsylvania.

It appears to me that the SBA is undoing all of the good work that my district has accomplished in the years I have been an SBA lender. The cap of $750,000; the exclusion of piggyback loans; the lowering of the guarantee; and most importantly, the centralization of loan processing will not only hurt small businesses but will be another hurdle for new or inexperienced SBA lenders.

Banks go through cycles, centralize then decentralize, and it appears that SBA is going through this mode as well. But as banks have found out, while you may be capable to churn out greater numbers, you lose touch with customers and their perspectives. Customers are better served if the SBA or lender can interact with them and possibly offer alternatives. By centralizing, you remove yourself from any "local knowledge" and the approval process is just formula or ratio-based. The SBA will also discover that it is extremely difficult to regain trust once it is lost.

My solution would be to staff district offices properly and give them the authority to do their job. If the SBA wants to expand the Express program time, eliminate the $750,000 cap and the piggyback exclusion, but don't lower the guarantee on all 7a programs.

Sincerely,

Patrick F. Nagle
Vice President

PFN/tln

WOMEN IMPACTING PUBLIC POLICY

Statement of Ms. Terry Neese, President

On Behalf of
Women Impacting Public Policy
and
Coalition Partner
National Association of Women Business Owners

Submitted to
Senate Small Business and Entrepreneurship Committee

"The President's FY2005 Budget Request for the SBA"

February 12, 2004

Women Impacting Public Policy
www.WIPP.org

Madam Chair, I am pleased to submit the views of Women Impacting Public Policy (WIPP) on the proposed FY2005 budget for the Small Business Administration (SBA). WIPP, a bipartisan nonprofit organization, represents 485,000 women in business nationwide.

The SBA, in its budget submission, states that 2.1 million entrepreneurs received business counseling and technical assistance through the SBA's advisory and training programs in FY2003. The SBA estimates that 106,000 individuals were helped by Women Business Centers (WBC's) in FY2003 and approximately 464,000 people received assistance from the volunteers at SCORE. We find that number impressive.

Equally impressive are the loan amounts the SBA lent to small businesses—a 30% increase in the total amount of loans backed by the agencies and record lending. The agency increased its loans to minorities by 32 percent, women business owners by 37 percent and to veterans by 22 percent.

Overall, the SBA has played a major role in encouraging the sector of the economy that has experienced growth and created jobs– small business. Women business owners have benefited greatly from the programs at the SBA and we commend the SBA on their ability to serve the needs of women who are starting and growing their businesses.

At the same time, however, we question how the SBA proposes to increase its services while cutting its budget. While we agree that modernization is worthwhile and may serve to cut costs, an estimated 10-15% cut in the FY 2005 budget seems to us to exceed simply modernizing the agency and making the operations of the agency more efficient.

As businesswomen, we do not subscribe to the theory that a decrease in funding for the SBA equals lack of support for small business. In fact, we support efforts by the SBA to act more like a small business, taking into account the effectiveness of the programs and the numbers of "customers" they serve. That being said, a small business also keeps its successful "product line" essential to its core business and disposes of those "products" which do not perform for the company.

We view Women's Business Centers (WBC's) as one of those SBA "products" which are successful and part of its core business. Of particular concern is the future of Women's Business Centers (WBC's) with regard to funding. It is our understanding that $12 million in funding is proposed for the centers in FY 2005. Yet, this Committee passed in its SBA Reauthorization last year, and the Senate agreed, that successful Centers now in existence should remain sustainable in addition to the new centers the SBA has stated it wants to open.

Full funding for WBC's in the 2004 SBA Reauthorization bill would require a level of $14.5 million. We would like to echo the testimony of our Coalition Partner, Association for Women Business Centers (AWBC). Ellen Golden, Chair of the Association, estimates that an appropriation of only $12 million for FY2005 will result in a cut in half of the grants available to Sustainability Centers—centers already in existence and with a known track record.

The AWBC also estimates that the goals outlined in the President's budget submittal for Women's Business Centers would require WBC's to increase the level of services delivered by roughly 18 percent. It seems to us that the SBA is proposing elements of a business plan destined to fail--an increase in services but decrease in revenue.

While we can argue about numbers, the fact of the matter is that every woman served by the Centers is much more than just a statistic. Maria Welch, one of WIPP's national founding partners and CEO of Respira Medical Services located in Baltimore MD, is just one of many stories we can cite about the important services provided by WBCs. The following is Maria's story:

"Three years ago I applied to Women Entrepreneurs of Baltimore, Inc. (WEB), an SBA funded Women's Business Center, which is also funded by the SBA PRIME program. Prior to entering the WEB program, I experienced difficulties including domestic abuse, resulting in my becoming homeless. At that low point in my life I was at a loss as to what to do to support myself and my family. I was searching my soul to find meaningful work where I could make a difference in people's lives.

Prior to becoming homeless, my father, Miguel Better, was dying of Chronic Obstructive Pulmonary Disease (COPD). He was a career ironworker and was exposed to environmental hazards such as asbestos, causing his COPD. COPD is a horrible disease, which prevents one's lungs from expanding and contracting and results in a long, slow and painful death. The toll of this disease on the patient and caregivers is enormous. As a result of assisting my mom take care of my dad, I realized my gift of caring for others and the powerful difference between caring, qualified respiratory therapists and those who were not.

Faced with the dual challenge of how to support my family and find meaningful work, I decided to go into the home health respiratory care business so I could help people like my father and their caregivers, like my mom, enjoy a much higher quality of life during the precious time they were still here with us.

When I applied to the WEB program, I expected to learn how to write a business plan and open a business. At that time, I was dealing with a lot of issues which affected my self-confidence and self-esteem. Not only did I learn how to write a great business plan and open my business, but I got the support, encouragement, resources and tools to overcome my lack of self-confidence and to build my self-esteem.

I am happy to report that just three years later, I employ 24 individuals, have cared for over 4000 patients, geographical coverage includes Maryland, DC, Northern Virginia, Southern Pennsylvania, Northern Delaware, grossed over $1.4 million this past year and have been honored with numerous awards, including the Small Business Administration, *Outstanding Woman Entrepreneur*.

I can assure you that none of this would have been possible without the highly effective and comprehensive program of WEB. There are no other programs that provide the in-depth and comprehensive training that WEB provides."

Alessa Sorrentino first learned about the Women's Business Center in Oklahoma City, the Terry Neese Center for Entrepreneurial Excellence, when she delivered one of her "Bloomin' Sweets" bouquets to a Center staff member. Feeling that she'd taken her business as far as she could, Alessa came back to the Center for help with expansion. Starting out with some basic business classes, Alessa soon graduated to a full-scale business plan for taking her company worldwide. Armed with her plan for success, Alessa had a good story to present to lenders for funding. Now Alessa is implementing her "Bloomin' Sweets" franchise concept over the internet to reach far beyond her corporate headquarters in Oklahoma City. She credits much of her business' growth to the Terry Neese Center for Entrepreneurial Excellence. "There's just so much to know about the business of business, I definitely recommend that any owner wanting to grow ask for the help that's available. And when you ask for help," Alessa continued, "ask for all the help you need, then ask and ask and keep asking!"

Both Maria and Allessa are creating jobs and revenue because of working with the Women's Business Center in their area. There are thousands of stories just like theirs that reiterate the importance of sustaining the WBC's already in existence and generation of new centers in other geographical locations.

Another key component of SBA centers' ability to offer technical assistance to women business owners is SCORE—the corps of counselors available to small business owners. According to SCORE, its outreach to entrepreneurs increased in FY2003 by 7 percent. More than 360,000 entrepreneurs and small business owners turned to SCORE for free and confidential business counseling, training workshops and seminars. The email counseling system, set a new record with 100,188 online counseling sessions, a 21 percent increase from the previous year. The FY2005 SBA budget request is level funded at $5.0 million. At this level of funding, however, SCORE will continue to have unmet needs, such as the re-development and enhancement of SCORE's email counseling capability, additional support for local chapters, enhanced marketing and public relations outreach and for recruiting, orientation and training of new volunteers, as well as the development of new tools to be used in the counseling process. Increased funding would result in better quality service and services for more of America's potential and existing small business owners and we urge the Committee to recommend increased funding...

Another "core product" at the SBA is access to capital. According to the National Women's Business Council's (NWBC) study "Helping Women Business Owners Gain Access to Capital," only 18.4 percent of women business owners have working capital. "Although the proportion of successful, emerging women-owned businesses is clearly increasing, women-owned businesses continue to apply for and to receive a relatively low proportion of funds from the financial industry."

WIPP believes that many opportunities for financing from the financial industry exist but not enough time or effort is made to communicate those opportunities to women owned businesses.

SBA's loan programs are, for many small businesses, the only way to obtain capital. Yet we note that SBA has authorized $0 for its Microloan program and proposing that the rest of its loan programs be funded through "user fees" rather than appropriated funds and a lower loan guarantee. The SBA has stated in its budget request that it wants to convert the 7(a) loan program into the model employed by the SBAExpress loan program.

WIPP applauds the ability of the SBAExpress program to decrease the paperwork and processing time associated with the loans. Our chief concern with a restructuring of the program is that these changes will result in lower lending to women owned businesses.

In particular, we are concerned about the budget proposal that lowers the amount of the loan SBA will guarantee from the current level of 75% to 50%. While we understand the rationale behind turning the SBA loan programs into a self sustaining program rather than depending on the Congress for annual appropriations, we note that the burden shifts to the lenders and users. We look to the financial institutions who participate in the SBA program to give us assurance that the proposed changes will result in the current level of lending to women owned businesses.

Our recommendation to the Committee is that the additional fees from the borrower should be permitted to be financed into the loan amount. Such broad changes to the 7(a) program deserve further study before implementation of the program. We ask the Committee to take into account how restructuring of the 7(a) loan program will affect the ability of lenders to "piggyback" the loans. As the Committee knows, the SBA placed a moratorium on this loan feature when it imposed its loan cap in January 2004. We urge the Committee to fully investigate the proposed changes to ensure that the end result is not a decrease in loans to women business owners.

Another concern with the SBA FY2005 budget is an issue that continues to be ignored by the SBA—implementation of P.L. 106-554 – the Women's Equity in Contracting law passed in the year 2000. The law as passed would give contracting officers the authority to designate 5% of federal contracts for "women owned" business to bid. Currently, only 2.9% of all federal contracts go to women owned businesses, which we find alarming and unacceptable.

Once again, the SBA has failed to meet its deadline with regard to implementation of the law. The SBA last year promised women business owners in this country that by December, 2003, it would complete a study on under representation by industry required by the law. It seems highly unlikely that such a relatively simple study should take four years to complete.

But yet, women business owners, who are sustaining this economy, have been denied the ability to compete for federal contracts because of the enormous barriers erected by government agencies. Implementation of this law would allow those businesses to compete for federal contracts and expand their companies even further. We urge the Senate Small Business Committee to do everything within its power to move forward with the implementation of this law. According to Rep. Nydia Velasquez, failure to implement this law means a $5 billion loss in potential revenue for women business owners.

In closing, we want to thank the Committee, and especially Chair Snowe, for her support of women owned business. WIPP stands ready to answer any questions the Committee may have with regard to this or any other small business issue.

WESST Corp Economic Development Team

February 10, 2004

The Honorable John F. Kerry
Ranking Member
Committee on Small Business and
Entrepreneurship
Washington, D.C. 20510-6350

Dear Senator Kerry:

We are very concerned about the Small Business Administration's proposal to zero out the funding for the BusinessLinc program. I am writing today to ask for your continued support of a program which has, for the past two years, played a critical role in Native American economic development in New Mexico and Western Arizona. Since 2001, WESST Corp, the New Mexico Community Development Loan Fund, and the American Indian Chamber of Commerce have been working together as the Coalition for Native American Business Growth, funded under the Native American set-aside component of the overall BusinessLinc program.

The Coalition's goals funded under BusinessLinc have been to encourage entrepreneurship, business expansion, market access and financing opportunities for Native American businesses, both on and off the reservation. In the first two years of the project (FY02-FY03), the Coalition has produced the following results:

- Extension of 26 loans totaling over $465,000 to Native American businesses;
- Creation of over 200 jobs for Native Americans;
- Facilitation of 85 business starts and expansions by Native Americans;
- Direct market and business linkages for over 150 Native American businesses.
- Development of a database comprising directory of Native-owned businesses in New Mexico.
- Provision of technical and business training for over 500 Native Americans;
- Facilitation of new business contracts/procurement opportunities for 10 Native-owned businesses;
- Recruitment of three national Native American organizations to hold their annual conference in New Mexico, thereby providing excellent networking opportunities for Native American businesses located in the region.

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Quantifiable results from our BusinessLinc project tell only one side of the story. In order to advance economic opportunities for Native Americans, Coalition partners have spent considerable time and effort in establishing relationships with tribal and business leaders, building trust among clients and community partners and bridging cultural differences. Our cumulative goal of promoting business opportunities for Native Americans is being realized.

Edward Quintana, Navajo, is a great example of how BusinessLinc funding has been of critical importance. His business – Quintana's Discount Frames in Gallup, New Mexico, purchases art from Native Americans and builds custom frames for it. He then resells the art through local retailers and his own gallery, thereby providing market access for 30-40 low-income Native Americans and an opportunity to make a decent living in one of New Mexico's poorest counties. A loan he received from Coalition partner, the New Mexico Community Development Loan Fund, financed the bulk purchases of the molding and matting materials with which he builds his frames.

Another BusinessLinc client, MobileAquaService.com provides auto detailing and oil change services in Shiprock, New Mexico. Through technical assistance and funding provided under the BusinessLinc program, the company's on-site assistance saves Bureau of Indian Affairs employees from making a 50-100 mile round trip for routine service and cleaning.

Finally, Vincent Gishi, Navajo painting contractor, recently completed a contract for the BIA in Alcon, Arizona where he employed 8 people. Recognized as the Business of the Year by the American Indian Business Association, Mr. Gishi has successfully bid another job in Santa Rosa, New Mexico. His business progress was facilitated by the great mentoring relationship with another Native-owned business, sponsored under the auspices of the Coalition for Native American Growth.

The loss of BusinessLinc funding would bring our successful project to a grinding halt. Relationships that we have spent two years nurturing with clients and with Native communities will be adversely impacted and erode the trust and credibility that Coalition partners have established to date. Ultimately, the loss of BusinessLinc funding would reflect the kind of start-stop initiatives that unfortunately many Native Americans have come to expect.

On behalf of all of the Coalition for Native American Growth partners, we ask for your full support for the continuation of the BusinessLinc program.

Best Regards.

Sincerely,

Agnes Noonan
Executive Director

Statement of

The National Small Business Association

NSBA
National Small Business Association

Senate Committee on Small Business and Entrepreneurship Hearing

"The President's FY2005 Budget Request for the SBA"

February 12, 2004

1156 15th Street, N.W., Suite 1100
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202.293.8830

The Senate Committee on Small Business and Entrepreneurship
Russell Senate Office Building 428A
Washington, DC 20510

February 12, 2004

To: The Honorable Olympia Snowe, Chair
The Honorable John Kerry, Ranking Member

Over the last two months, the Small Business Administration (SBA) has made some dramatic decisions concerning the 7(a) loan guarantee program. As SBA's most widely-used and highly beneficial program, the National Small Business Association (NSBA) would like to urge both appropriate funding and support of this economic growth tool.

As the nation's oldest nonpartisan small business advocacy group, we reach more than 150,000 small businesses nation-wide and have been long-time supporters of the popular 7(a) program. In short, the 7(a) program empowers banks to make loans to small businesses with the added security of a government guarantee up to a certain amount of the loan. Historically, small businesses have a difficult time garnering bank financing for a number of reasons: many small and start-up businesses may lack the assets necessary for a traditional bank loan, smaller loans are generally less-profitable for banks, smaller loans typically have a higher default rate, etc... As SBA celebrates 50 years of providing direct and guaranteed business loans, it is important that the goal of helping small businesses gain access to capital not be hindered.

The issue with fully funding the 7(a) program is not a new one. When the administration's budget request for FY 2004 was released, many in the industry warned that the request would not be sufficient to meet demand. FY 2003 funding was also inadequate, which led to a $500,000 loan cap and a much needed transfer of funds from the STAR program in order to get the program running at full capacity again. When December 2003 rolled around, SBA realized that there would again be a shortage of funds by which to serve small business 7(a) requests.

On December 23, 2003, SBA sent the 15-day notice of an impending loan cap of $750,000 on the 7(a) program to Congress. This led to an increase in loans larger than $750,000 rushed through to get approved before it was too late. Then, on January 6, 2004, SBA announced a "7(a) lending holiday" that put a stop to all 7(a) loan processing for one week. Applications that were not processed were returned to the lender and are now facing resubmission. According to SBA, 456 loans were in the pipeline to be processed when the shut-down occurred.

Under the leadership and hard work of both Chairwoman Snowe and Ranking Member Kerry, the SBA garnered approval from Appropriators to reprogram funds from un-used FY 2003 funds to authorize SBA an additional $470 million in loan guarantees with the hopes that the omnibus appropriations measure would pass enabling SBA more funds to work with. However, with a monthly demand for the 7(a) loans reaching just over $1 billion per month, even the recently passed appropriations bill will not offer the long-term solution needed for the beleaguered program.

That infusion of cash allowed SBA to re-open the 7(a) program with a $750,000 loan cap and a first-lien policy prohibiting the use of "piggybacking". This method of financing allows lenders flexibility with financing options for a small business, and such restrictions could impair lenders ability to work with small businesses in the long-term. NSBA, while pleased that the program is temporarily up and running at a lower-level than usual, is hopeful that this situation served as a wake-up call to both the SBA and Congress. Demand for 7(a) loans has been on the rise and doesn't appear to be a temporary development. NSBA has advocated for a strong, appropriately funded 7(a) program, and urges both Congress and the SBA to request and appropriate funds adequate to meet the demand for the 7(a) program.

After the last months-worth of headaches for the 7(a) program a further blow came last week when the Administration proposed further cuts for the SBA budget. The FY 2005 request by the Administration is approximately $119.5 million below last year's request level, and is an overall 10 percent below the FY 04 budget authority.

In addition to the overall decrease in funding, SBA and the Administration have proposed to zero-out the subsidy rate. The current subsidy rate, a new econometric model developed by the Office of Management and Budget, calculates the rate of defaults for the 7(a) program. SBA must keep on-hand a certain level of funding to account for those defaults, that funding comes from appropriators and establishes the lending authority of SBA. This rate allows 99 dollars in the private sector to be leveraged for every 1 dollar in tax-payer funds appropriated leading to a multitude of benefits for small businesses and the economy overall. By proposing a zero subsidy rate, the administration would cause the program to shift the burden of a subsidy rate from the SBA to the lenders and borrowers through the increase of fees.

To further complicate matters, the expiration of PL 107-100 will increase the annual fees as well as guarantee fees for lenders by as much as 100%. This law set temporarily lower fees for a period of two years, and beginning in FY 2005 guarantee fees for loans less than $150,000 would increase from 1 percent of the guaranteed portion to 2 percent, or a 100% increase. The guarantee fees for loans between $150,000 and $700,000 would increase from 2.5 percent of the guaranteed portion to 3 percent, or a 20% increase in fees. Loans above $700,000 would not see any increase to their 3.5 percent guarantee fees, but all loans would see their annual service fees increase from .25 percent to .5 percent.

The Administration's budget proposal accounts for this change in fees by both zeroing-out the subsidy rate and increasing SBA 7(a) lending authority to $12.5 billion. While $12.5 request for budget authority for the 7(a) program would finally but the administration's request on-par with demand, we are concerned with the negative effects increased fees could have. SBA asserts that a zero subsidy rate would lead to stability in affording the program autonomy from the appropriations process. However, the increased fees could lead to banks and lenders who are less willing to do the work required and pay additional fees for smaller loans. Further exacerbating the problem with small loans is the fact that the proposed budget eliminates the Mircoloan program altogether and wraps it in with the traditional 7(a) loans. There are various disincentives already at work against those seeking very small loan amounts and we worry that this kind of policy change could further discourage banks from working with very small businesses seeking small loans.

SBA Administrator Barreto has made several references to a legislative proposal that would achieve this increased budget authority without significantly increasing fees. Though this proposal has not been made publicly available and NSBA has not been briefed on the issue, it is our understanding that the SBA hopes to expand on the SBA Express loan program and offering the 7(a) program only a 50 percent guarantee instead of it's traditional 75 to 85 percent guarantee.

Noting again that NSBA has not yet been privy to this document, we do see a couple of potential problems with this kind of overall programmatic shift within SBA. While the SBA Express is a great program for many small businesses, it is not a program that fits all the needs currently served by the SBA. Using a credit-scoring method and significantly reduced paperwork application process, SBA Express offers an average loan size of less than $50,000 with much shorter loan terms. Again, NSBA supports this program, but realizes its' unique ability for certain businesses.

Another proposal that has been discussed recently is usage of the 504 loan program. While the 504 program is an outstanding method of financing for real estate, it is highly complex with strict rules on how the money can be applied. The 504 program is not suitable for those businesses in contracting who go for up to 12 months and more before being paid for a project. This loan program was designed specifically for long-term, fixed asset loans, not to provide small businesses with working capital. The 504 program has a three-tiered lending process which uses funds from the SBA, commercial banks and community development corporations. Small businesses who wish to qualify for these loans must meet a variety of economic requirements and must also identify their estimated economic impact in the community through job growth or retention. 504 loans require two closings, the first of which must be completed with the funds from the CDC prior to approval and closing of the loan from the commercial bank and SBA. Finally, 504 loans entail a greater up-front cost than traditional 7(a) loans; where a 7(a) loan is generally 10% up-front, a 504 requires 20% up-front. Again, NSBA fully supports this program as a stand-alone community development program, but not as a replacement for the 7(a) program.

NSBA strongly encourages both the Administration and Congress to fully support small businesses as the true growth-centers of our economy. Small businesses create 75 percent of net new jobs, according to the Office of Advocacy, and supporting that growth should be paramount. Perhaps the one thing that nearly everyone in this debate can agree upon is the fact that demand for 7(a) loans is strong. Instituting increased fees would not only reduce that demand, it could significantly inhibit banks willingness to work with small businesses who could only gain financing through the SBA program. According to the National Association of Government Guaranteed Lenders, SBA is the largest single provider of long-term loans to small businesses. For every $33,000 spent in the 7(a) program, one job is created or retained, in 2002, 7(a) loans created or retained 370,000 jobs. SBA has an incredibly important role in ensuring access to capital for small businesses, and NSBA is dedicated to working with SBA and Congress to ensure a fully-funded, thriving 7(a) loan program that will meet the needs of America's small business owners. NSBA is pleased to be working alongside the Senate Small Business Committee and applauds your diligence and dedication to these successful SBA programs.

February 23, 2004

The Honorable Olympia J. Snowe, Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

By Fax: 202-224-4885
Attention: Sarah Martin

I have worked in the SBA lending arena as a Vice President, Business Development Officer since 1990 and am currently employed by Bank of the West. Prior to joining Bank of the West, I served twelve years at Sacramento Commercial Bank under Jerry Smith, who was one of the real pioneers of the SBA lending program. In my career, I have had the pleasure of assisting over 200 borrowers in obtaining SBA financing of over $180,000,000. I am proud, and thankful, that the success I have enjoyed in SBA lending has allowed me to support my wonderful family of seven while also providing tremendous help to many small businesses that are so integral to the economy of our country.

I truly enjoy the help I am able to bring to small business due to the SBA 7(a) loan program. Because of the funding available in the program, many borrowers have been able to buy their own buildings, instead of paying ever-escalating rents to their landlords. I have also helped many borrowers to refinance real estate debts that were harmful to their business because of high interest rates and/or repayment terms that made monthly payments so high that growth was impossible. Though the 504 loan program is great for real estate financing--and is being pushed extensively as an alternative to 7(a) loans-- it is not allowed for refinancing of existing debts. That is a significant reason why the 7(a) loan is so valuable for small business. I've also had the satisfaction of funding business acquisitions where loyal employees were able to enjoy the benefits of owning their own business instead of remaining employees only. I've also financed new businesses that were then able to offer employment opportunities where none would have existed without the 7(a) program. Again, I am proud that the SBA 7(a) funds I have provided have helped so many businesses for so many years. Conversely, having spent 12 years in a community bank lending environment, I know that most of these loan requests would never have been approved without the benefit of the SBA loan guarantee.

In closing, I would humbly request that the 7(a) loan program be returned to it's former limits of $2,000,000, again be allowed for piggy-back financing, and that the potential of future "shutdowns" be proactively addressed to mitigate the upheaval caused to small businesses when planned for funding "disappears". Though I consider myself a conservative, somewhat "over-taxed" citizen, I am proud to be involved in a government program that works so well and helps so many businesses, thus contributing to the very backbone of the American society. You should be very proud of the program as well.

Thanks again for your efforts for the small businesses of our country. These people are part of what makes America so great, again validating the notion that if one is willing to work hard the opportunities of our country are indeed limitless. Feel free to call with any questions you may have or if I can be of any further assistance.

Sincerely,

Kevin Rappleye, Vice President
Bank of the West
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BETA CALIBRATORS

BETA Calibrators Corporation

11 February, 2004

The Honorable John Kerry
Senate Committee on Small Business Entrepreneurship
304 Russell Senate Office Bldg.
Washington D.D., 20510

RE: Hearings on SBA's 2005 Budget – U.S. Export Assistance Centers

Dear Senator Kerry,

In reviewing the recent 2005 budget request submitted by the President, I noticed some disturbing things in reference to SBA's deliverance of assistance to small business exporters in America. The SBA's 2005 budget request has eliminated the line item funding for its participation in the U.S. Export Assistance Centers (USEAC). The narrative in the budget makes it clear that SBA intends to deliver trade finance assistance to small business exporters and lenders desiring to learn how to participate in SBA's trade finance guarantee programs through Small Business Development Centers, Women's Business Centers, SCORE and the SBA District Offices. We feel the elimination of SBA's participation in the USEACs and the elimination of SBA's International Trade Finance Specialists providing technical assistance to lenders and exporters would adversely impact access to capital by American exporters.

District Export Councils (DEC) are organizations of leaders from the local business community, appointed by the Secretaries of Commerce, whose knowledge of international business provides a source of professional advice for local firms.

United States Export Assistance Centers (USEAC) are multi-government agency offices housing two or more government agencies, which have programs to assist U.S. small and medium sized exporters (SME) in gaining entry to or expanding their export markets. The main agencies in these offices are the Commercial Service of the Department of Commerce, the SBA, and in some cases Ex-Im Bank. This one-stop shop approach to assisting exporters has been very successful and has made for easy access to the all the main export agencies by American exporters.

The DECs have worked hand in hand with the government agencies housed in the USEACs to assist American companies in entering or expanding their export markets. The SBA USEAC representatives assist SMEs in obtaining essential working capital to facilitate exporting. They are also experts in other government and private sector financing and will make the appropriate referral. In FY 2003, SBA USEAC Representatives facilitated $488.0 million in loans to over 1600 American exporters. Those exporters have reported over $1 billion in export sales. Small Business Development Centers (SBDC), SCORE, and Women's Business Centers, and even SBA District Offices may provide useful technical assistance as business generalists, but

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2309 Springlake Road, Suite 600, Dallas, Texas 75234 USA • Telephone +1 (972) 241-2200 • Fax +1 (972) 241-6752 • www.betacalibrators.com

Egypt – Y2K - USAID	Conducted extensive and detailed assessment, evaluation, system testing and remediation of the Egyptian Electricy Holding Company's electric system. Established an Incident Command Management Methodology (ICMM) to delineate communications path for technical and management information and for decision making in event of a Y2K induced event or national/system emergency or security event. 1998 & 1999
Indonesia Oil & Gas -USAID	Drafted unprecedented sector policy, the country's first draft oil & gas bill that in Autumn 2001 was adopted into law by Parliament. 1999
Romania - ESRG - USAID	Provided technical assistance to Government of Romania on restructuring and regulatory reform. 1999-2001
Asia & other – SLUM - USAID	Examining expansion of electricity for peri-urban settlements. Work being done in India, Philippines, South America. Fall 2003
Nepal IT – USAID	Providing short term IT expertise to Nepal Electricity Authority to help improve performance and meet development targets. Fall 2003
Dominican Republic - USAID	Assist the National Energy Commission (CNE) to design an energy efficiency (E2) strategy which will address "growing pains" associated with the first generation of reforms. Fall 2003
Moldova Weatherizaton-USAID	Selected weatherization sites in Moldova, performed weatherization activities using local energy service companies (ESCOs), provided local ESCO training in weatherization and energy efficiency techniques, assessed energy savings. August 1999 thru November 2002
Afghanistan Review - USAID	Reviewed current & projected state of affairs in electricity, gas, coal, fuels and renewable energy sectors and in energy use in industrial, residential, commercial and government areas in Afghanistan. Prepared paper assessing the condition and viability of using 3 diesel generators. Fall 2003

In addition to our USAID IQC II contract, we have continued work in Indonesia and Armenia under SBA . SBA Procurement 0101/03/309792, Energy Efficiency Pilot Projects, Armenia. SBA Procurement 0101/02/203599 Energy Analysis & Policy Office Assistance (EAPO) II.

We strongly urge you to restore the funding for the program. It has both an impact on local and global benefits.

Thank you for your attention to this matter.

Sincerely,

Dorothy E. Redmond

Dorothy E. Redmond
Director of Finance

Eastern Bank

February 23, 2004

The Honorable Olympia J. Snowe
Chairman
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

America's small businesses represent 99.7% of all employers and create approximately 75% of the net new jobs added to the economy. Therefore it is imperative that Congress do all that it can to support the US Small Business Administration's 7(a) loan guarantee program.

The 7(a) program is crucial to the nation's small business lenders. It provides lenders the tools necessary to accommodate the financial needs of growing small businesses while maintaining sound credit policies. Further, the 7(a) program lends support to the low-moderate income areas where typically financial institutions are challenged to provide loans to small businesses.

As the nation moves from an industrial to a service economy, small businesses will need to invest more in human capital and less in capital equipment. This means businesses will have less tangible assets to pledge as collateral for loans. Lenders will therefore be looking more and more to the SBA's loan guarantee program. Proposed changes such as the prohibition in 'piggyback' lending and lowering the guarantee from 75% to 50% will mean less projects get funded as more loans fall 'out of the box' in terms of lenders' credit requirements.

Reducing the maximum loan amount from $2 million to $750,000 is also a regressive step. While the apparent stimulation will support many smaller loans to smaller businesses, the immediate impact will penalize those existing businesses, which require additional financing above $750,000 to support job creation and economic growth. It is precisely these larger projects that provide the best prospects for new job creation.

We respectfully urge you to reject these proposed changes to the SBA's 7(a) program.

Sincerely,

Joseph Riley
Senior Vice President
Small Business Banking

Cc: Honorable J. Kerry
T. Duncan

One Eastern Place • Lynn MA 01901-1508
Connecting All Departments (781) 599-2100 • Internet Address www.easternbank.com

National Institute for World Trade
Post Office Box 55
Cold Spring Harbor, NY 11724
Tel: 631-367-4608
Email: ross@niwt.org

February 11, 2004

The Honorable John Kerry
Senate Committee on Small Business Entrepreneurship
304 Russell Senate Office Bldg.
Washington D.C., 20510
Fax No: 202-228-1814

February 11, 2004

RE: 1. Hearings on SBA's 2005 Budget – U.S. Export Assistance Centers
2. The Impending Staff Shrinkage of International Trade Administration Personnel Based Abroad

Dear Senator Kerry,

In reviewing the recent 2005 budget request submitted by the President, I noticed some disturbing things in reference to SBA's deliverance of assistance to small business exporters in America. The SBA's 2005 budget request has eliminated the line item funding for its participation in the U.S. Export Assistance Centers (USEAC). The narrative in the budget makes it clear that SBA intends to deliver trade finance assistance to small business exporters and lenders desiring to learn how to participate in SBA's trade finance guarantee programs through Small Business Development Centers, Women's Business Centers, SCORE and the SBA District Offices. **We feel the elimination of SBA's participation in the USEACs and the elimination of SBA's International Trade Finance Specialists providing technical assistance to lenders and exporters would adversely impact access to capital by American exporters.**

District Export Councils (DEC) are organizations of leaders from the local business community, appointed by the Secretaries of Commerce, whose knowledge of international business provides a source of professional advice for local firms.

United States Export Assistance Centers (USEAC) are multi-government agency offices housing two or more government agencies, which have programs to assist U.S. small and medium sized exporters (SME) in gaining entry to or expanding their export markets. The main agencies in these offices are the Commercial Service of the Department of Commerce, the SBA, and in some cases Ex-Im Bank. This one-stop shop approach to assisting exporters has been very successful and has made for easy access to the all the main export agencies by American exporters.

The DECs have worked hand in hand with the government agencies housed in the USEACs to assist American companies in entering or expanding their export markets. The SBA USEAC representatives assist SMEs in obtaining essential working capital to facilitate exporting. They are also experts in other government and private sector financing and will make the appropriate referral. In FY 2003, SBA USEAC Representatives facilitated $488.0 million in loans to over 1600 American exporters. Those exporters have reported over $1 billion in export sales.
Small Business Development Centers (SBDC), SCORE, and Women's Business Centers, and even SBA District Offices may provide useful technical assistance as business generalists, but unfortunately they do not have the skill set or technical expertise in trade finance. Even SBDCs, which specialize in International Trade, lack personnel trained in trade finance. And, the limited budgets of these organizations would not provide sufficient funds to supplement their resources in this area.

On behalf of our New York District Export Council, I am writing to you to let you know of our strong support for having SBA specialist s working hand in glove with our Department of Commerce field staff personnel. It would be a tragic mistake to eliminate SBA's Trade Finance Specialists and the SBA participation in the USEACs. We are asking for your support in retaining the funding for SBA's USEAC participation.

Access to working capital is more difficult for small business exporters. Today the U.S. has a record breaking trade deficit. More than 96% of the U.S. exporters are small or medium sized businesses. It is essential that the U.S. government provide assistance to SMEs to increase exports, which in turn, creates jobs and assists with the trade imbalance. The SBA USEAC Trade Finance Specialists are highly trained and focused on providing that sorely needed access to capital needed by small business exporters.

In addition to this SBA matter, you should also know that our Export Council is very much concerned about the fact that the Omnibus Bill passes to the Department of Commerce (DOC) and other agencies the responsibility to fund security improvements at our overseas locations, including the construction of new embassies.. The need for security for our personnel is evident. However, no funds have been allocated to the DOC for this effort, We are advised that a large personnel cut will now be necessary at DOC, which will erode our much needed export expansion programs on behalf of Small and Midsized Enterprises. Our multinationals have been operating abroad for many years and generally do not need the level of support required by our SMEs..

Our District Export Councils nationally have contacted many Congresspersons and Senators on this issue during the past several months with surprisingly little success. All in the Congress seem committed to let the International Trade Administration wither on the vine. It is primarily the Small Business Community which will be affected by this staff shrinkage.

We do hope that you can help on both of these issues, by :

1. Allocating the funds required to co-locate SBA international trade specialists within USEAC offices.

2. Provide the additional funding required to create secure facilities for DOC/ITA personnel who are living and working abroad.

I will be pleased to provide any additional information you require on these two subjects.

Sincerely yours,

S Ross

Spencer Ross
Chair
New York District Export Council

Borrego Springs Bank, National Association

February 24, 2004

The Honorable Olympia J. Snowe, Chairman

May I begin by expressing my gratitude for your demonstrated support of the SBA loan programs and my concern for the future of this viable, economic vehicle which means so much to the continued well being of our small business community.

The current SBA Administrations proposal is both short sighted and demonstrates their lack of understanding of the "big picture". The express loan program is widely believed to be a "give away" program whereby the large commercial banks have used it as a dumping grounds for those small business loan requests that do not meet their credit standards and/or are too small to be profitable, read CRA activity. The potential losses to be incurred from the express program have not had sufficient time or program experience to be properly evaluated. Many of these express loans are in the form of unsecured lines of credit which have no initial requirement for principal repayment and thus the default rate has not been reflected as of yet. One issue that is a misnomer is that the express program by allowing a lender to use it's own loan forms is much more cost effective to the lender. As an SBA lender who has made an ongoing commitment to support the program, we have the computer software that makes it no more costly for us to prepare the minimal required SBA forms than to prepare normal commercial loan documents. I would contend it is the unwilling attitude and lack of commitment from the large commercial bank lenders to show the necessary support for the SBA program that makes this an issue.

The irony is that it is the small community bank SBA lender and the non bank lenders who actually do far more to stimulate the economy than do the large commercial bank express lenders. By selling the guaranteed portion and in some cases the unguaranteed portions of an SBA 7A loan, these lenders are part of a large "food chain" that includes the small business borrower, its employees, the lenders and its employees, the secondary market investor and its employees, the fiscal transfer agent and its employees, and finally the end purchaser of the loan pool security. These various entities and individuals are all tax payers and viable economic members of our Country. Thus this group, the real SBA lenders, have a much more far reaching economic impact than does the large bank who makes the express loan and fails to become a part of the food chain. This does not mean that the express loan program serves no purpose or should be discontinued, however, to hold this program up as the savior of the SBA program as a whole is ludicrous.

The reduction in the guaranty to 50% will impose a significant burden on the small community banks which have historically been the back bone of the SBA lending program. The increased exposure and decreased liquidity will in all probability result in many of these lenders exiting the program. There are some who believe that the current SBA Administration would like nothing better.

La Mesa Executive Offices
7777 Alvarado Road, Suite 501 • La Mesa, CA 91941 • Tel (619) 668-5159 • Fax (619) 403-5191

Another fallacy that the SBA Administration has held for some time is that the 7A program should not be used for real estate lending. There is no risk difference between a properly underwritten 504 real estate loan and a 7A real estate loan. The prepayment penalties that are required as a function of using a debenture sale to fund the 504 loan are often not in the best interests of small business borrower, nor is the fixed rate feature necessarily a good choice. In the event of a borrower default, the SBA incurs far more expense and liability under the 504 program than it does under the 7A program. If a 504 loan defaults the SBA bears the entire expense of collection and liquidation and any deficiency becomes an SBA cost. This compares to a 7A real estate loan where the lender not only has to collect and liquidate the loan, but also has a minimum exposure of 25% of any costs and deficiency. The fees charged to both lender and borrower on the larger 7A real estate loans also provide a significant cost offset to the program. These facts seem to have escaped the SBA Administration.

In conclusion the SBA Administrations proposal is not acceptable and should not be approved. It is imperative that with your continued support the SBA 7A program be properly funded and thus allowed to be the viable economic vehicle that it has been proven to be over the years.

Respectfully,

Wm. P. Ruhlman
President/COO

IBS·COMMODITIES
the global food source

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Date: February 16, 2004
To: Honorable John F. Kerry
US Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

Fax: 202-228-1814
From: Karen Russell

Dear Senator Kerry,

I am writing you to express my strong support of the SBA program and the benefit it has provided my company. IBS Commodities, a food commodities export company, was started in 1992; in 1998 I bought out the majority shares of my partner, Robert Hildreth, and became the sole owner of the company. I received a loan from Bank of Boston, which was guaranteed by an $833,000 export working capital guarantee from the SBA. This was critical for me in order to continue financing my export shipments; if I had not received this guarantee I could not have continued doing the same volume of exports and I would not have been able to continue my business.

The SBA has also been a very valuable program for the nature of IBS's business, as it is a less restrictive program than EXIM. Additionally, the USEAC of the SBA has provided me with valuable assistance in both exporting and trade finance. There is no other US small business organization that provides this help for those, such as myself, in the international arena of business. The bulk of our export business is shipping US beans and rice to countries such as the Dominican Republic, Mexico and Haiti. To that end, the SBA not only supports our company but the various farmers in the Midwest and the South where we source our product.

I therefore hope that the SBA is allowed to continue the kind of service and financing guarantees that are so important for companies such as IBS Commodities. As a woman owning a business, I find many obstacles to compete successfully in the export business. The SBA has removed a huge hurdle and has therefore, been a crucial support.

Please contact me should you have any questions or comments.

Sincerely,

Karen Russell
President
IBS Commodities, Inc.

697 Washington St., Suite 202, Newtonville, MA 02458
Tel 617-796-9700 Fax 617-796-9777
www.ibscommodities.com

Ultima Bank Minnesota

February 18, 2004

The Honorable John F. Kerry
Ranking Member
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

This letter is to inform your committee that Ultima Bank Minnesota supports the International Trade Programs provided by the U.S. Small Business Administration in Minneapolis. I personally work with Nancy Libersky, Regional Manager for the Export Working Capital Program.

Nancy Libersky assisted Ultima Bank Minnesota in providing one of our customers with financing for their export business. We were able to set up a meeting with Nancy and our customer to discuss the pros and cons of the Export Working Capital Program. The SBA program with Nancy's assistance has been a great asset to our bank. Nancy is very professional, pleasant and very knowledgeable in the International Trade Program and that without her I feel Small Business Administration would feel a great loss.

Thank you for your consideration in this matter. If you need further information please contact me at (218) 938-4144.

Sincerely,

Theresa A. Simon

Theresa A. Simon
Vice President

Via fax: 202.228.1814

PO BOX 533 - HWY 2 EAST
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(218) 435-2265 (800) 421-2588
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FAX (218) 938-4170

TUCSON

February 11, 2004

To: The Honorable John F. Kerry
Senator from Massachusetts
Ranking Member of the Committee on Small Business and Entreprenuership
428A Russell Building
Washington D.C. 20510

From: Lee Smith
Program Director, BusinessLINC
City of Tucson / Office of Economic Development
P.O. Box 27210
Tucson, Arizona 85726 – 7210

Dear Sir:

I am writing to express my concerns regarding the loss of SBA BusinessLINC program funding and to update you on the impact that this decision has had on the Southern Arizona BusinessLINC program.

Our program is designed to increase sales and exports for our businesses and as a result, create quality jobs for our citizens. These jobs and the appropriate training of our workforce are critical to our community's economic sustainability and growth.

In October 2001, City of Tucson Office of Economic Development was awarded a SBA BusinessLINC grant to support the retention and expansion opportunities for Tucson's existing manufacturing industries and affiliated suppliers. The grant provided the foundation for what has been an extremely successful collaboration of public and private sector efforts directed at building our local economy through increased export sales of regional products and services. This in turn has created new jobs growth in the manufacturing and/or industry associated sectors. As you know, manufacturing jobs generally pay better and offer wider ranges of career path development opportunities. The grant also provided the financial catalyst to leverage additional program funding and support from state, county and city partners. Through the prudent application of resources and through focused program implementation methods, the Southern Arizona BusinessLINC program has delivered significant results:

- Active website with searchable database containing1,962 company profiles
- $ 58.4 million in new sales contracts for local businesses
- 680+ new or retained jobs
- 79 current active buyer / seller projects ($ 6.4 million estimated total value)
- Several states are interested in the SAZ BusinessLINC program model
- Sonora Mexico is interested in the SAZ BusinessLINC program model

Office of Economic Development
255 W. ALAMEDA CITY HALL 3RD Floor West * P.O. BOX 27210 * TUCSON, AZ 85726-7210
(520) 791-5093 * FAX (520) 791-5413

Another benefit of the SBA BusinessLINC grant, was the perceived opportunity to have five years of potential funding support (based on funding availability and individual program performance) to build momentum toward substantial private sector support of the program over the five year time frame. Loss of federal program funding after year two has dramatically impacted the Southern Arizona program. Cut backs in field staff were necessary due to negative budget adjustments. The reduction in field activity has affected the number of projects that can be worked therefore reducing the overall sales deliverables. Morale of the business community as a whole is lower because they understood and saw the potential of the program to create new sales and jobs. The business community is shocked that the federal government would pull back from a program that is producing real and tangible results.

When I testified before the House Committee on Small Business in Washington D.C., I returned home with a sense that the committee members in attendance understood the importance and potential of BusinessLINC. My perception was supported by the fact that both Senate and House Small Business Committees recommended reinstatement of the BusinessLINC program at full funding only to be amazed later that appropriation for the program was not approved. A collective effort of state and local support to make known the value of the BusinessLINC program to our federal representatives apparently fell on deaf ears.

I surely don't understand why funding for the Southern Arizona BusinessLINC program was eliminated, especially with the significant results we've had. I respectfully request that you and your colleges please reconsider the issue of BusinessLINC program funding and reinstate the program for at least the full time period outlined in the initial proposal.

If I can provide any assistance in this endeavor, please contact me. Thank you for your consideration and help in this matter.

Respectfully,

Lee Smith

Lee Smith

Office of Economic Development
255 W. ALAMEDA CITY HALL 3RD Floor West * P.O. BOX 27210 * TUCSON, AZ 85726-7210
(520) 791-5093 * FAX (520) 791-5413

AzBusinessLINC Program Overview

Program Focus:

Retention and expansion of manufacturing business opportunities and manufacturing associated jobs is a high priority for the entire Arizona/Sonora economic region. The Southern Arizona AzBusinessLINC program administered by the City of Tucson Office of Economic Development focuses on matching new procurement and other B2B buyer needs with existing regional supply chain or seller resources. In order to expand awareness of these resources, the AzBusinessLINC.com website provides quick and easy on-line access to detailed business and supplier information. Buyers may directly access the extensive business profile database or request AzBusinessLINC staff assistance in identifying procurement needs solutions.

Program Methods:

- Seek out and cultivate new local, national and international buyer/seller relationships for Southern Arizona businesses.
- Profile existing business products and services in an on-line searchable business-to-business directory.
- Facilitate access to a broad range of business development support organizations and "best practice" professionals.

Program Resources and Responsibilities:

City of Tucson/Office of Economic Development

- Program Manager (1x) – Responsible for all aspects of program delivery
  - Personnel Management
  - Task Assignments
  - Database Development
  - Strategic Partner Coordination
  - Outside/Inside Agency Interface
  - Marketing AzBusinessLINC
  - Training
  - Tracking and Reports
  - Program Impact Evaluation
  - Program Funding and Disbursement
- Administrative Assistant (1x) – Responsible for general administrative support
  - Record Keeping
  - Research
  - Reports
  - Staff Travel Activity Coordination
  - Customer Phone Interface

Event Coordination
User Technical Support
Profile Intake Assistance
Profile Review and Approval

- Economic Development Specialist (3x) – Responsible for Field Interaction
  Regional Business/Facility Visits
  Company Product and Service Assessments
  Coordination of Business Development Assistance
  Buyer Needs Assessments
  Identification of "Procurement" Opportunities
  Buyer/Seller Matching Efforts
  Database Improvement Recommendations
  Project Development
  Project Tracking and Reports

- Programmer (1x) – Responsible for development of database structure
  Database Development
  Trouble Shooting
  Maintenance
  Technical Support
  Hosting

Strategic Partners

- Profile Intake Partner – Responsible for "seller or supplier" participation
  Marketing AzBusinessLINC
  Encourage Business Database Participation
  Assist Business in the Data Entry Process
  Review Entered Data for Completeness
  Approve Final Profile Data

Examples: Southern Arizona Tech Council, Regional Economic Development Organizations, Chambers of Commerce.

- Business Assistance Partners – Responsible for business development help
  Business Coaching
  Business Plans
  Marketing Plans
  Best Practice Applications
  Quality Improvements
  Process Improvements

Examples: Pima Community College Small Business Development Center, Micro-business Advancement Center, Tucson Mexico Trade Office

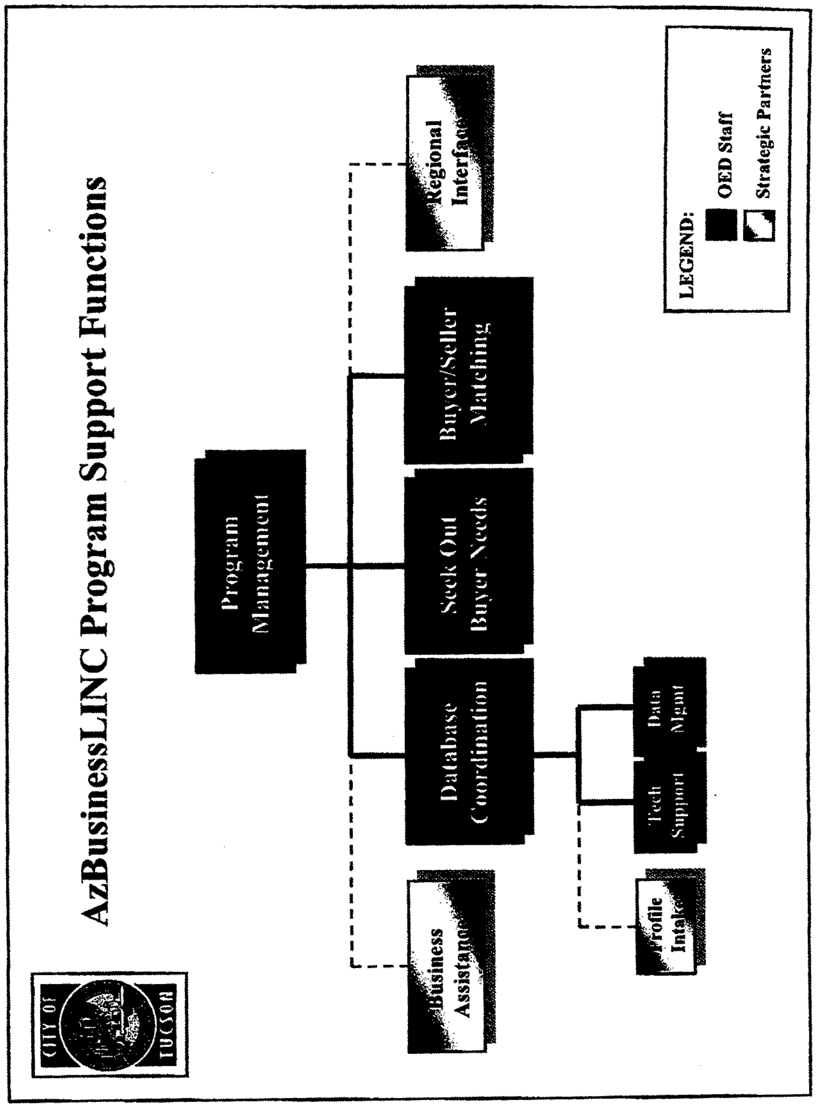
- Regional Interface Partner – Responsible for direct program Interface
  Regional Buyer/Seller Activity

Regional AzBusinesLINC Marketing

Examples: Arizona Department of Commerce, Greater Tucson Economic Council, Yuma Economic Development Foundation

- Program Awareness Partner – Responsible for regional program awareness
  - Community Business Interaction
  - Community Business Events
  - Community Representation

Examples: Safford Chamber of Commerce, Nogales Santa Cruz County Economic Development Foundation, Procurement and Professional Organizations, Maquila Associations


CITY OF TUCSON
AzBusinessLINC Program Support Functions
Program Management
Business Assistanc
Database Coordination
Seek Out Buyer Needs
Buyer/Seller Matching
Regional Interfac
Profile Intak
Tech Support
Data Mgmt
LEGEND:
OED Staff
Strategic Partners

June 9, 2003

Congress of the United States
House of Representatives
Committee on Small Business

BusinessLINC Perspective and Overview

Presented By: Lee J. Smith
Program Director, Southern Arizona BusinessLINC
City of Tucson/Office of Economic Development

I am excited and honored to have this opportunity to share my experience and insight regarding the SBA BusinessLINC program. It is with great pride that I speak on behalf of the City of Tucson's Office of Economic Development and my dedicated BusinessLINC team and program partners.

Identifying and applying "Best Practice" methodology generally improves business operational efficiencies and in most cases result in a more competitive posture in the market place. Facilitating the exchange of knowledge and expertise between large and small manufacturers is in itself a worthy goal of the SBA BusinessLINC program. Without question, market competitiveness is a key element to business success. However, small business owners face other equally important challenges such as advertising, marketing and sales. In most cases, small businesses focus internal resources on delivery of products or services and lack adequate capital, staff and expertise to effectively address these other important areas of business activity. Being ready is not enough!

To more effectively respond to the unique needs and issues of Southern Arizona's manufacturing associated businesses; we expanded BusinessLINC program focus and support to encompass all areas of business operations including: application of best practices, advertising, marketing and sales. Our goal was to maximize small business retention/expansion impact to the region through the leveraging of collective local, state and federal economic development resources and the utilization of public and private sector expertise to work in concert with this effort. We prioritized areas of program focus and identified implementation tasks and associated resources that would be required to support each area of focus. We developed an overall program coordination and accountability system that includes the tracking and reporting of field staff activity and deliverables for team "continuous improvement evaluation" and for "return on investment" consideration. We engaged Southern Arizona economic development community organizations to enlist program support and participation.

Southern Arizona BusinessLINC Program **<u>Areas of Focus</u>:**

- **<u>Mentor/Protégé</u>**
  Goal: Identify and Apply Best Practices

  Method:
  - ➢ Facilitate access to and utilization of public/private sector business assistance expertise including: SCORE, SBDC, WBC, regional ED organizations and business community volunteers
  - ➢ Create and document a "project" file describing area of need, resource, timeline and expected outcome

- **<u>Business Database</u>**
  Goal: Maximize Product and Service Awareness

  Method:
  - ➢ Identify and document available Southern Arizona products and services
  - ➢ Develop interactive internet accessible BusinessLINC website and business profile database with extensive search capabilities
  - ➢ Partner organizations contact and encourage "Sellers" to profile products, services and a statement of capabilities in database
  - ➢ BusinessLINC field staff educates regional "Buyers" regarding awareness and use of the database including Mexican manufacturing industry firms
  - ➢ BusinessLINC field staff conducts workshops regarding program benefits and demonstrate the effectiveness of the website to participating groups
  - ➢ Utilize media coverage of program events or projects of interest when ever possible to promote awareness of available resources

- **<u>Identifv Needs</u>**
  Goal: Pursue New Sales Opportunities

  Method:
  - ➢ Survey regional manufacturing companies to identify what products and services are currently purchased from Southern Arizona suppliers (2002 University of Arizona survey indicates 88% of local procurement goes outside Southern Arizona region)
  - ➢ BusinessLINC field staff meets directly with buyers to identify specific products or services not currently being purchased locally and to understand reasons for decision (not aware of local resource, not cost competitive, inadequate local production capacity, etc.)
  - ➢ BusinessLINC field staff interacts with the U.S. Department of Commerce Export Assistance Center and the Arizona Department of Commerce International Trade Office working leads and pursuing International sales opportunities for Southern Arizona suppliers

- ➢ BusinessLINC field staff regularly visit and assess Mexican manufacturing plants to promote BusinessLINC database awareness and to identify products and services that could be purchased locally

- **Buyer Selling Matching**
  Goal: Facilitate New or Expanded Sales Contracts

  Method:
  - ➢ Direct buyer database access, search and match
  - ➢ Buyer requested BusinessLINC field staff search and matching assistance
  - ➢ BusinessLINC field staff facilitate and promote collaborative business response when no single match is found for unique need(s)
  - ➢ BusinessLINC field staff network with partners to seek out needed resources when those resources are not present in database

- **Jobs/Sales**
  Goal: Generate New Tax Revenues

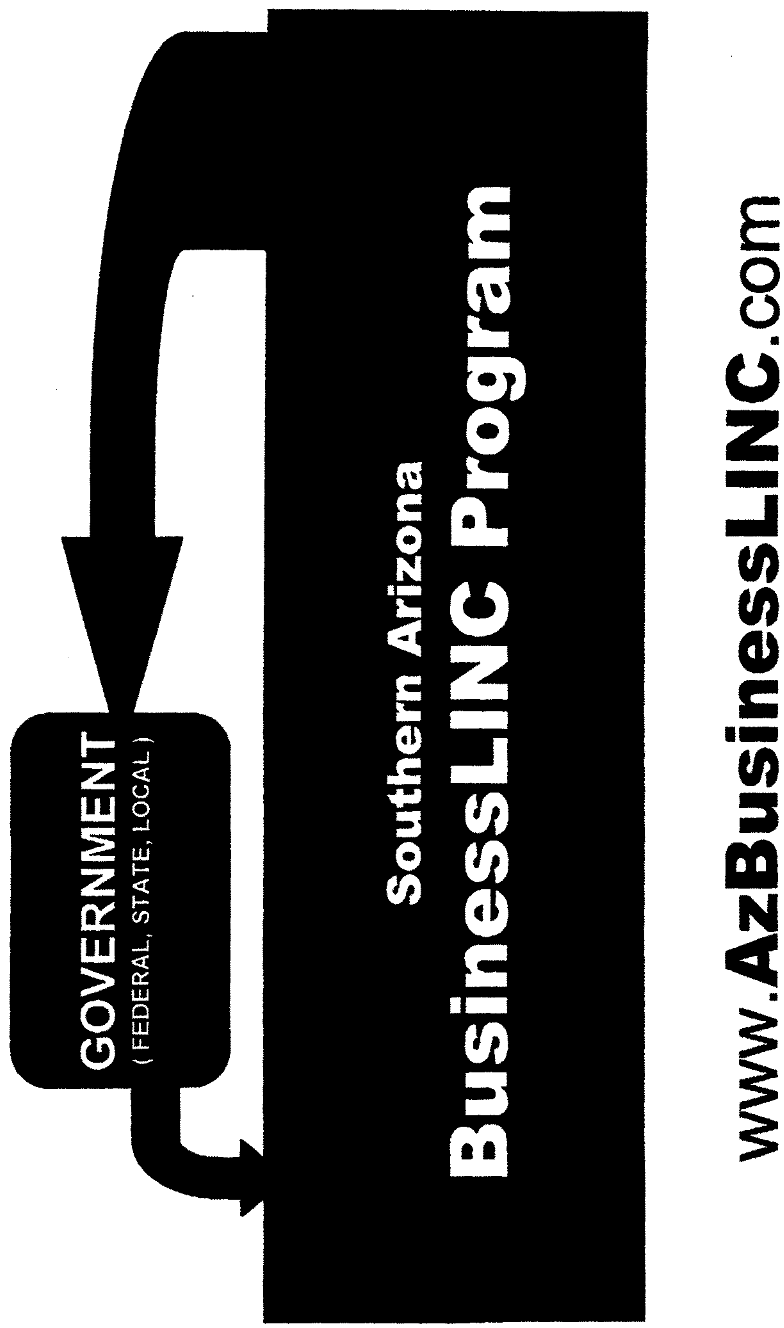
  Method:
  - ➢ Accountability and reporting of program activity and performance
  - ➢ Deliverables (New jobs and sales)

The Southern Arizona BusinessLINC team and partners have successfully facilitated numbers of Mentor/Protégé relationships resulting in higher levels of business readiness. BusinessLINC team efforts have effectively promoted expanded awareness of available regional products and services. BusinessLINC team efforts have provided access to new regional and international market opportunities and leads, many of which have produced new sales revenues and jobs for rural and urban small businesses throughout Southern Arizona including minority owned businesses.

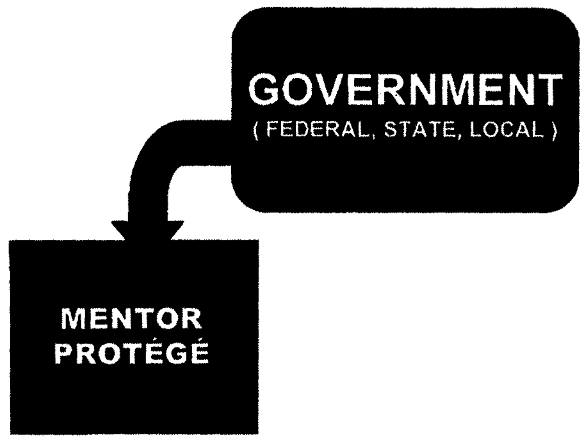
Program Impact (18 months):

- **$ 54.2 million** – New Regional Contracts
- **$ 2.7 million** – New International Contracts
- **680** – Estimated New and / or Retained Jobs
- **28** – Mentor / Protégé Projects Completions
- **1,550** – Business Profiles on Website
- **$ 3.1** million – Estimated New Tax Revenue

I hope that my testimony today has provided you cause to consider the future possibilities and potential of the BusinessLINC program. From my perspective, BusinessLINC is certainly a program that can directly impact small business growth and economic stability in many areas throughout our country and certainly merits continued funding.


GOVERNMENT
(FEDERAL, STATE, LOCAL)
Southern Arizona
BusinessLINC Program
www.AzBusinessLINC.com

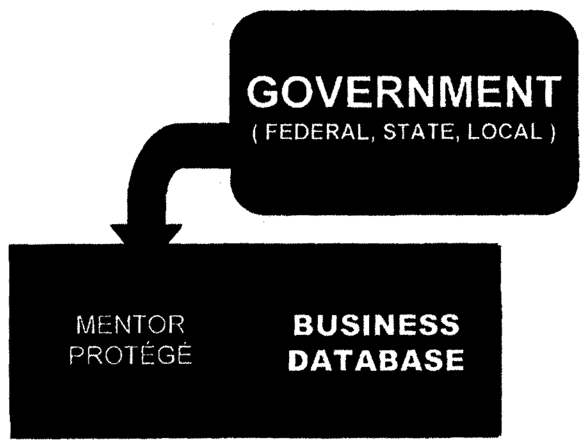
Southern Arizona
BusinessLINC Program



GOAL:
Identify and Apply Best Practices

Southern Arizona

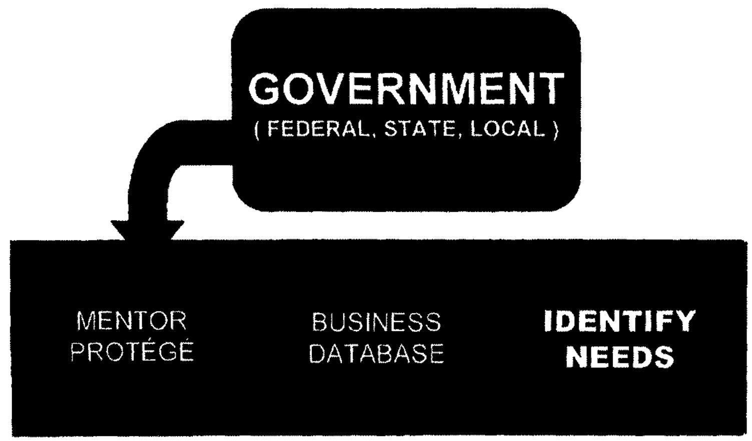
BusinessLINC Program



GOAL:
Maximize Product and Service Awareness

Southern Arizona

BusinessLINC Program



GOAL:
Pursue New Sales Opportunities

Southern Arizona

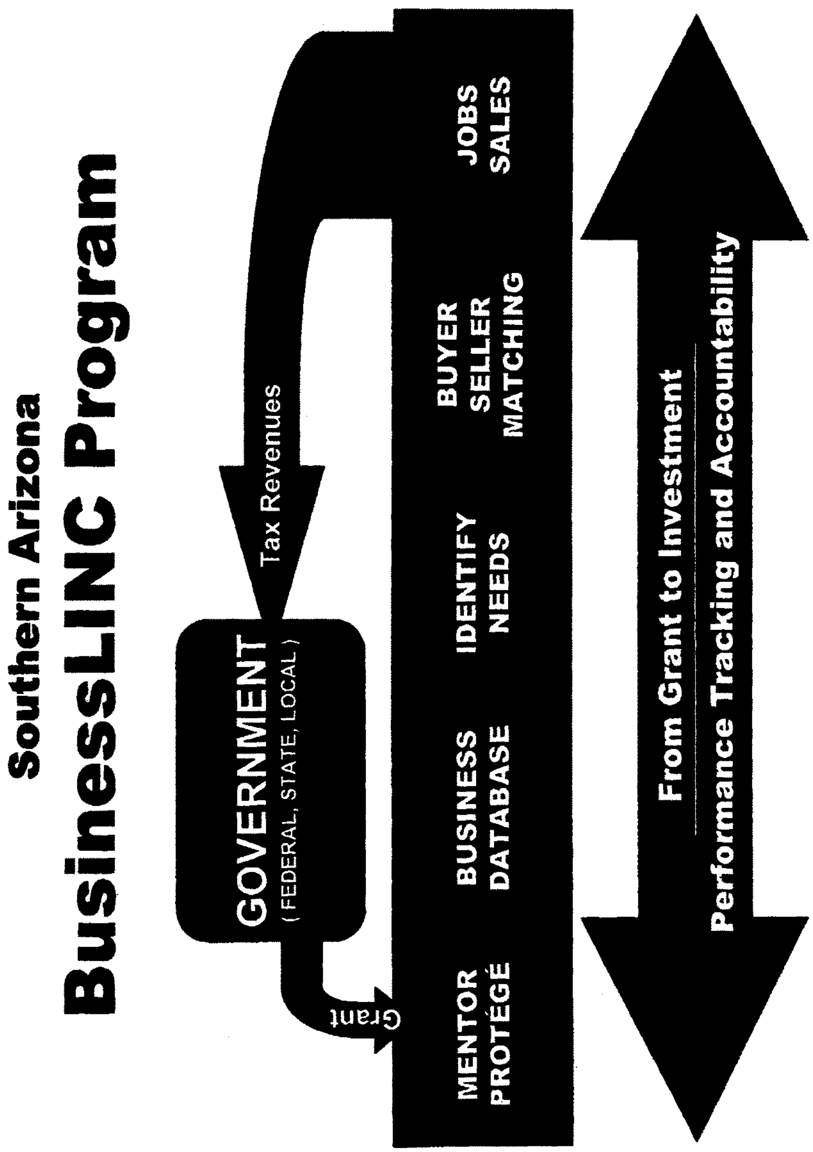
BusinessLINC Program

GOAL:
Facilitate New or Expanded Sales Contracts

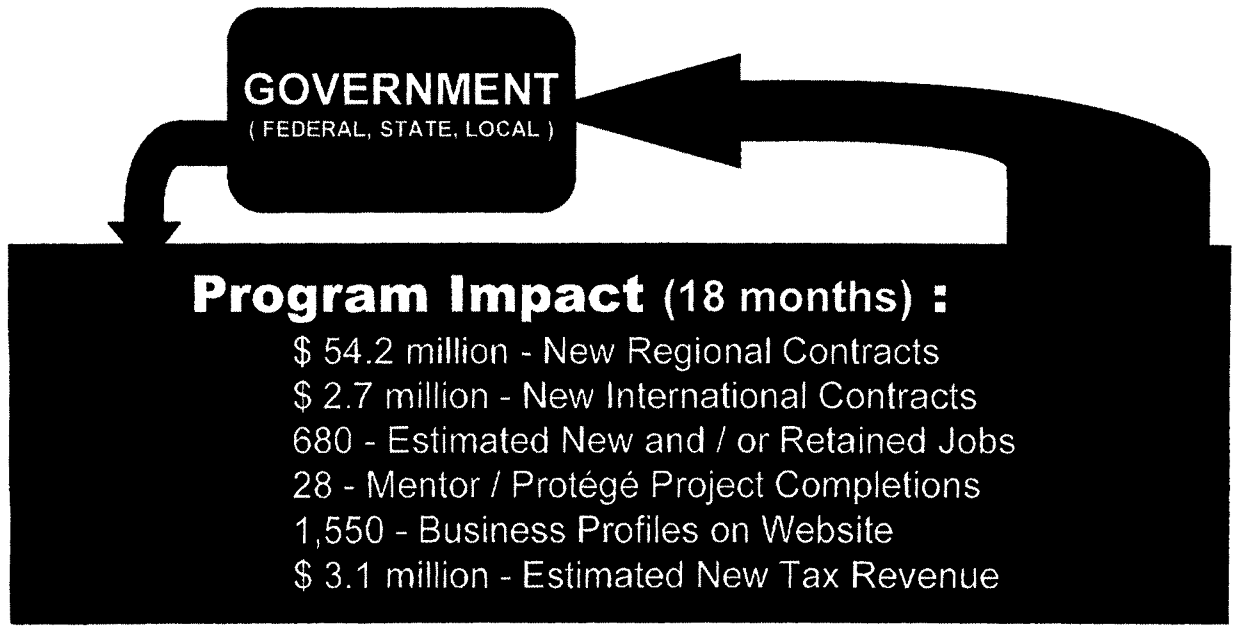
Southern Arizona

BusinessLINC Program

GOAL:
Generate New Tax Revenues


Southern Arizona
BusinessLINC Program
GOVERNMENT
(FEDERAL, STATE, LOCAL)
Tax Revenues
Grant
MENTOR PROTÉGÉ
BUSINESS DATABASE
IDENTIFY NEEDS
BUYER SELLER MATCHING
JOBS SALES
From Grant to Investment
Performance Tracking and Accountability

Southern Arizona
BusinessLINC Program



TESTIMONIALS

"Cybernetic Research Laboratories experience with BusinessLINC has been unparalleled in both performance and results, exceeding our expectations in every aspect. BusinessLINC provided opportunities to our company that resulted in excess of $375,000 in sales and created 3 new jobs for our community. I highly recommend BusinessLINC as an unprecedented success."

John Rix, President
Cybernetic Research Laboratories, Inc.
Tucson, Arizona [Pima County]
"Seller and Protégé" Participant

"As a small business, it is often difficult to get in the door of the large companies. You, and others, at BusinessLINC have certainly opened the door for that to change. The type of work that we are talking about with both TRW and Raytheon are high level engineering jobs requiring highly paid engineers to fulfill the contracts - exactly what is needed to keep Tucson's economic engine moving forward."

Jane Poynter, CEO
Paragon Space Development Corporation
Tucson, Arizona [Pima County]
"Protégé, Seller and Buyer" Participant

"I just wanted to thank you for referring Matt Pobloske of ACR to me. With ACR's help, we were able to submit a very complex proposal within a short period of time. I believe we have a good chance of being awarded the contract due in no small part to the help we received from ACR. The Mentor Resource Project [of BusinessLINC] is a terrific program and provides a tremendous service to small businesses like mine. Thanks again for your help."

Sean Oseran, Director of Sales & Contracts
K-Tech Aviation, Inc.
Tucson, Arizona [Pima County]
"Protégé" Participant

"You introduced us to TRW - Sierra Vista who had a pallet requirement. We have since filled their pallet needs and have established a mutually beneficial relationship."

Mike Wattis, President
Pallet Recyclers, LLC
Tucson, Arizona [Pima County]
"Seller" Participant

"I am writing to commend the BusinessLINC Program. . . . BusinessLINC has done a great job connecting me with two companies (so far). I think the BusinessLINC program has tremendous potential for matching up companies with revenue and profit-building resources."

Gary Baraff, Consultant
Tucson, Arizona [Pima County]
"Mentor" Participant

"BusinessLINC has been extremely instrumental in the identification and selection of Arizona suppliers with capabilities to meet our product design specifications and requirements."

"The detailed information provided by BusinessLINC for local suppliers was highly useful as the basis for the initiation of a TRW Supplier Database. The information was organized into distinct supplier disciplines, with detailed data (e.g. phone numbers, websites, key contacts, quality system, and core competencies) relative to each supplier."

G. David McCaleb
Manager, Production Operations
TRW, Sierra Vista, Arizona [Cochise County]
"Buyer" Participant

"BusinessLINC was able to align us with a company that we had previously called on with no success. Reliance now has an opportunity to do business that should yield six-figure sales."

Lorena Valencia, President
Reliance Wire & Cable, LLC
Nogales, Arizona [Santa Cruz County]
"Seller" Participant

"Thank you very much for your support and help in locating manufacturers, suppliers, and all the components needed to get us up and walking. As you put it at the end of each meeting, "Now, let's go make some money". Now that we are getting a contract from QVC, we will."

Ken Dowers, President
Two Bro Industries, LLC
Tucson, Arizona [Pima County]
"Buyer and Protégé" Participant

"Without your program's efforts and support, we probably would not have been given the opportunity to bid. Although not successful this time, it has brought our company's name to the attention of people in upper management [at that company]."

Bill Morris, President
Roadrunner Fastening Systems, Inc.
Tucson, Arizona [Pima County]
"Seller" Participant

"The BusinessLINC program has pushed aggressively to connect suppliers with customers. Their efforts help retain and expand business in the plastics and advanced composite materials industry, as well as all other high-tech industries in Southern Arizona."

Wayne Lundeberg, President
Catalina Tool & Mold
Tucson, Arizona [Pima County]
"Seller" Participant

"This letter is to advise you of the positive effect BusinessLINC has had on our company, The Software Firm, Inc. [Through BusinessLINC], a mentor with national/international marketing expertise was introduced to mentor my company, and assist us in finding solutions to marketing obstacles we have faced with one of our product lines. After the time dedicated as mentor, we offered to contract [him] as our marketing/communications company."

"The Mentor-Protégé network provides many opportunities for business procurement/contracting and protégé relationships throughout Southern Arizona. Please do all you can to assure this funding does not end next year."

Antonio Procopio, Vice President
The Software Firm, Inc.
Tucson, Arizona [Pima County
"Protégé and Seller" Participant

"I just wanted to take a minute to thank you for working so hard to try to help us get our recent project done here in Tucson. I hope that you are able to continue your work, which has been a great help in introducing us to several companies which we were unaware of before we met you."

Tim Kenyon, Chief Sr. Mechanical Designer
Sigma Technologies International, Inc.
Tucson, Arizona [Pima County]
"Buyer" Participant

June 5, 2003

Mr. Lee J. Smith, Program Director
BusinessLINC Program
City of Tucson-Office of Economic Development
P.O. Box 27210
Tucson, AZ 85726-7210

Dear Lee,

It is a real pleasure to write a letter of support to you for the BusinessLINC Program. The BusinessLINC Program is a welcome addition to our area. It has made a positive impact on our economic development efforts for Safford, Thatcher and Pima.

The BusinessLINC Program provides a critical link in developing relationships with businesses in our community and the surrounding area. You and your staff have been so helpful in providing business improvement and expansion resources by means of your frequent personal visits to businesses in our community.

We look forward to your continued participation in the building of business for our community in the future.

Sincerely,

Sheldon Miller, Executive Director
Graham County Chamber of Commerce

Greater YEDC

June 5, 2003

Lee J. Smith, Program Director
BusinessLINC
Office of Economic Development
City of Tucson
Tucson, AZ 85701

Dear Mr. Smith:

The Greater Yuma Economic Development Corporation endorses the efforts put forth by the BusinessLINC program. The communities in Yuma County, Arizona need this supply chain development program to enhance the exposure of our manufacturing industry.
Furthermore, the BusinessLINC program has provided GYEDC with an opportunity to add this tool to our Business Expansion and Retention efforts. The BusinessLINC program has played a critical role in helping us develop stronger relationships with our manufacturers.

The staff of the BusinessLINC program is always looking to assist our staff and industry. GYEDC maintains very high levels of communication and information sharing with the BusinessLINC staff. Mr. Bourland from the BusinessLINC team regularly visits our region and has been instrumental in introducing GYEDC to maquiladora management in San Luis Rio Colorado, Mexico. These "maquiladora" visits have produced the discovery of a number of procurement needs that may be satisfied by Arizona companies. This is just an example of the effectiveness of the BusinessLINC program.

GYEDC looks forward to continuing our relationship with the BusinessLINC team to further our Economic Development efforts for Yuma County. BusinessLINC and the supply chain development program will continue to play a major role in our efforts to attract new industry to our area.

Sincerely,

Miguel Bravo
Business Development Representative

Jim Ferguson
President/CEO

Greater Yuma Economic Development Corporation
377 S. Main Street, Suite 202 * Yuma, AZ 85364 * (928) 783-0193 * FAX (928) 782-2551
www.gyedc.org

NOGALES - SANTA CRUZ COUNTY
ECONOMIC DEVELOPMENT FOUNDATION

1790 N. Mastick Way, Suite E, Nogales, Arizona 85621 • P.O. Box 1688 Nogales, Arizona 85628
Phone (520) 377-2055 • Fax (520) 377-2054 • web site www.nogales.com • e-mail: nsccedf@nogales.com

VIA E-MAIL

June 5, 2003

Mr. Lee Smith, Program Director
BusinessLINC Program
City of Tucson- Office of Economic Development
P. O. Box 27210
Tucson, Arizona 85726-7210

Dear Mr. Smith:

The Nogales-Santa Cruz County Economic Development Foundation ("NSCCEDF") is pleased to support your program's efforts and look forward to our continued collaboration. EDF is a private non-profit organization charged with improving the quality of life for our residents through business retention, expansion and attraction efforts. In this US-Mexico border and rural Arizona area where high levels of unemployment and poverty are challenges to our economic growth, every new job created through business expansion benefits the entire community. The City of Tucson Office of Economic Development BusinessLINC program is a viable part of our community's efforts towards economic sustainability.

In the past two years, the BusinessLINC program has provided local businesses with expansion opportunities that they would not have had otherwise allowing for additional capital investment to expand their business and creating additional jobs. As a major additional benefit, BusinessLINC has proven to be the most productive tool for regional economic development, offering local companies to enter into business arrangements with their regional counterparts.

Please also allow me the opportunity to commend you and your team members for providing us with such high and diversified levels of expertise in areas of international trade, business administration and marketing, and facilitation. You have allowed our community to receive the benefit of this professionalism for which we are grateful.

I look forward to our continued collaboration towards improving the regional economy.

Yours truly,

Susan Morales

Susan Clarke Morales
Executive Director

PimaCommunityCollege
Small Business Development Center

June 9, 2003

Mr. Lee Smith, Program Director
BusinessLINC
City of Tucson OED
P. O. Box 27210
Tucson, AZ 85726-7210

Dear Lee:

The Pima Community College Small Business Development Center is pleased to submit this letter of support for the City of Tucson's BusinessLINC program.

BusinessLINC, from its inception, has been a driving economic force in our community. The program greatly facilitates regional business-to-business relationships, thereby increasing supply chain activities and hence revenues for many of our local companies. As you are aware, the PCC Small Business Development Center is a business resource center dedicated to helping businesses in Pima and Santa Cruz counties succeed through business counseling and training. Thanks to the collaboration that has taken place between our two staffs, we have been able to maximize our efforts in assisting our local businesses. The frequent referrals between the two entities enable both programs to best coordinate limited resources and help businesses to grow and prosper.

The PCC Small Business Development Center heartily endorses the continued funding of the BusinessLINC program. It has truly been an economic success in our region, and serves as an outstanding example of how federal dollars, when combined with local resources, can be utilized to the maximum effectiveness.

Sincerely,

Nancy L. Russell
Director
Pima Community College SBDC

June 9, 2003

Mr. Lee Smith, Program Director
BusinessLINC Program
City of Tucson- Office of Economic Development
P. O. Box 27210
Tucson, Arizona 85726-7210

Dear Mr. Smith:

The Sierra Vista Economic Development Foundation (SVEDF) is pleased to support your program's efforts and look forward to our continued collaboration. EDF is a private non-profit organization charged with improving the quality of life for our residents through business retention, expansion and attraction efforts. The largest employer in southern Arizona, Ft Huachuca, resides here in Sierra Vista and with it brings thousands of high technology jobs within the defense industry. The Business Link program has directly impacted new high Technology programs by providing cost competitive suppliers to these prime defense contractors that has resulted in millions of dollars in new contracts for Southern Arizona. The partnership with the SVEDF and the City of Tucson Office of Economic Development BusinessLINC program is a viable part of our community's efforts towards economic diversity and has been implemented into our long range economic development strategy.

Allow me to commend you and your team members for providing us with such high and diversified levels of expertise in making this program a success through clear and measurable economic results.

I look forward to our continued collaboration in building this new low cost environment that impacts the emerging product lines that our soldiers and sailors are using today and in the future.

Barry Albrecht
Executive Director/CEO
Sierra Vista Economic Development Foundation

U.S. Department of Commerce
Tucson Export Assistance Center
166 West Alameda Street
Tucson, Arizona 85701
Tel. 520-670-5540
Fax 520-791-5413

June 5, 2003

Mr. Lee Smith
Project Manager
BusinessLINC
City of Tucson Office of Economic Development
Post Office Box 27210
Tucson, Arizona 85726

Dear Lee,

On behalf of the Tucson Export Assistance Center, allow me to commend your team on the continued success of the BusinessLINC program. In little more than a year, BusinessLINC has not only come to be recognized by the local business community as one of the most innovative and promising economic development programs the region has seen in years, but the entire state of Arizona has taken notice too.

The Tucson Export Assistance Center, a division of the U.S. Commercial Service, is dedicated to helping local enterprises meet their international business development goals. We accomplish this through a variety of programs and initiatives, including the targeted distribution of trade leads. Since the launch of BusinessLINC, our organizations have successfully collaborated to share a number of particularly promising international business leads with capable local manufacturers. This included aerospace leads from Europe and a number of Mexican opportunities. Moreover, BusinessLINC team members and I visit local companies on a regular basis to counsel them about developing new supplier relationships, both locally and abroad. This cooperative relationship makes BusinessLINC one of the Tucson Export Assistance Center's key strategic partners in southern Arizona.

I look forward to helping BusinessLINC maintain its impressive momentum and working with your talented team to support the expansion efforts of our local SMEs in Arizona and beyond.

Sincerely,

Eric Nielsen
Manager

Greater Casa Grande Valley
ECONOMIC DEVELOPMENT FOUNDATION

201 E. 3rd St
Casa Grande, AZ 85222
(520) 836-6868
1-888-211-6868
(520) 836-4898 FAX
casagrnd@cybertrails.com

12 July, 2002

Mr. Lee J. Smith
Program Manager
BusinessLINC
City of Tucson
P.O. Box 27210
Tucson, AZ 85726-7210

Dear Lee:

Thank you for the opportunity to meet and discuss BusinessLINC with you and your staff. During our meeting, I was particularly impressed with the depth of planning and work that has already gone into the program.

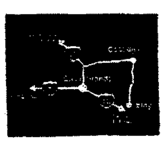
After learning more about the program and your current activities, I believe business opportunities for local companies in Casa Grande, Coolidge and Eloy could potentially be enhanced through our cooperation and participation. BusinessLINC could have a substantial positive impact to bring additional commerce to our tri-city area.

I look forward to continuing our discussions and potentially increasing our involvement in the program.

Sincerely,

Lori M. Gary

Lori M. Gary, CED
Executive Director



Asociación de Maquiladoras de Sonora, A.C.

AMS

Parque Industrial de Nogales
Carretera Industrial de Nogales Km. 6
Apartado Postal #76-A
Tel. (011-52-631) 4-01-11
Fax (011-52-631) 4-01-12
Email: amsnogal@prodigy.net.mx
Nogales, Sonora, México

P.O. Box 893
Nogales, AZ. 85628

June 5, 2003

Mr. Lee Smith, Program Director
Business LINC Program
City of Tucson- Office of Economic Development
P.O. Box 27210-7210
Tucson, AZ.

Dear Mr. Smith:

Please accept these supportive comments on behalf of the Business LINC Program services.

Your program has served as a very helpful service to many of the major manufacturers that are members of our organization.

By introducing Business LINC supply chain resources to our local manufacturers, they are able to consider and purchase more materials and services regionally and thus help them take more advantage of NAFTA benefits as well as assist in contributing to our regional and local economies.

We continue to look forward to working with your program and its representatives.

Sincerely,

Luis Peralta
Executive Director

Beatriz Díaz
President

THE CITY OF DOUGLAS
425 Tenth Street, Douglas, Arizona 85607
Telephone (520) 805-4047
Fax (520) 364-1585

J. Art Macias, Jr. Community and Economic Development Director

June 5, 2003

Mr. Lee J. Smith
Program Director
BusinessLINC Program
City of Tucson – Office of Economic Development
PO Box 27210
Tucson, AZ. 85726-7210

Dear Mr. Smith

This letter is to inform you that the City of Douglas supports your BusinessLINC Program. The program has made a positive impact on the Economic Development efforts of the community. It provides a critical link in developing relationships with businesses in the community and the surrounding area. The BusinsessLINC staff is very helpful in providing business improvement and expansion resources by means of frequent personal visits to businesses in our community.

The Douglas community will gain many benefits from the BusinessLINC program. Please feel free to contact me if we can provide you with additional assistance.

Sincerely,

Art Macias, Jr.
CED Director

AM:car

"Douglas - the premier southwestern border community"

NORTHROP GRUMMAN

Mission Systems

Tactical Systems
4067 Enterprise W
Sierra Vista, AZ 85

February 11, 2003

Mr. James Keene
City Manager, City of Tucson
P.O. Box 27210
Tucson, AZ 85726

Dear Mr. Keene,

I wish to take this opportunity to commend the City of Tucson's Office of Economic Development and the BusinessLINC team for their help and support over the past year. Each time that we requested assistance in identifying specific types of suppliers, your BusinessLINC team came through for us. I am pleased to inform you that a number of orders have been placed with several Tucson suppliers that your BusinessLINC team matched to our needs. Future anticipated orders should involve even more local awards due to the comprehensive list of suppliers provided through the BusinessLINC program.

The program's innovative approach to connecting buyers with sellers certainly appears, at least from our perspective, to provide an important service that expands awareness of existing products and services available in Southern Arizona. Several months ago, while in the process of preparing quotations for the Department of Defense, we were concerned by our lack of knowledge regarding local suppliers needed to support the bid. I contacted Barry Albrecht with Sierra Vista Economic Development and he referred me to Lee Smith of BusinessLINC. Mr. Smith provided a list of regional suppliers that could provide the expertise we needed. Several of these firms provided cost estimates that were included in our proposals. Last year, we received in excess of $50 million Department of Defense contract awards and I believe that the BusinessLINC support effort was a factor in receiving the awards and successfully performing on the contracts.

BusinessLINC certainly deserves our thanks for a job well done and we look forward to a continued and valued relationship.

Respectfully,

Kevin R. Goates

Kevin R. Goates
Manager, Finance & Business

CITY OF TUCSON
OFFICE OF THE MAYOR

ROBERT E. WALKUP
MAYOR

255 WEST ALAMEDA
P.O. BOX 27210
TUCSON, ARIZONA 85726-7210
PHONE: (520) 791-4201
FAX: (520) 791-5348

July 11, 2002

Mr. Martin Gold
SBA Technical Representative
U. S. Small Business Administration
409 Third Street, SW – 8th Floor
Washington, DC 20416

RE: The new BusinessLINC Program

Dear Mr. Gold:

As the Mayor of Tucson, my challenge is to cultivate a more vital and dynamic city that provides for all of our people. It is particularly important that Tucson continue to develop a strong commercial sector.

Many programs are developed to stimulate commercial expansion. However, the new BusinessLINC Program has proven that it "gets down to business" right from the start. Mentorship opportunities are being fulfilled, large contracts have been awarded, and the unique database is a reality. This is a very exciting new program for Tucson.

I am elated that the SBA selected Tucson as a worthy grant site and look forward to continued funding for BusinessLINC to maintain the momentum of its success. BusinessLINC is good for Tucson because it is good for business.

Respectfully,

Robert E. Walkup
Mayor

ARIZONA DEPARTMENT OF COMMERCE

JANET NAPOLITANO
GOVERNOR

GILBERT JIMENEZ
DIRECTOR

June 9, 2003

Mr. Lee Smith
Program Manager
BusinessLINC
City of Tucson Office of Economic Development
P.O. Box 27210
Tucson, Arizona 85726-7210

Mr. Smith:

I'm writing this letter on behalf of the Arizona Department of Commerce in support of the BusinessLINC Program.

Governor Janet Napolitano has made the development of the supplier network a platform of her Technology Advisory Council, a public/private alliance dedicated to driving the growth of Arizona's technology sectors.

The ability for companies to source from one another is critical to fostering a thriving business base and we believe that the statewide expansion of BusinessLINC will act as an important catalyst to this end.

Not only is BusinessLINC a successful "buy local" initiative, but the program also has positive national and international implications for Arizona. Buyers worldwide can receive real-time information about Arizona's suppliers to address their most unique product and service requirements, further expanding our local business base.

The bottom line for Arizona is a measurable increase in contract attainment and prosperity for the state through potential job creation and enhanced local wealth.

Sincerely,

Gilbert Jimenez

1700 WEST WASHINGTON STREET • SUITE 600 • PHOENIX, AZ 85007 • USA
PHONE 602·771·1100 • FAX 602·771·1200 • http//www.azcommerce.com

Capital One

Capital One Services, Inc.
Attn: 12071-0410
11011 West Broad Street
Glen Allen, VA 23060

February 26, 2004

The Honorable Olympia J. Snowe
United States Senate
Chairman
Committee on Small Business and Entrepreneurship
SBA FY 2005 Budget Hearing
Statement for the Record

Attention: Sarah Martin
VIA FACSIMILE
(202) 224-4885

Capital One Financial Corporation is a holding company headquartered in McLean, Virginia, that operates through three principal subsidiaries: Capital One Bank, Capital One, Federal Savings Bank (F.S.B.) and Capital One Auto Finance, Inc.

Capital One, F.S.B., initiated its SBA guaranteed loan activity in early 2001 participating in both the LowDoc and SBAExpress loan programs. In 2003 Capital One became the sixth largest SBA lender in the nation, lending nearly $100 million to over 2,100 entrepreneurs.

Unlike many of our competitors, Capital One has focused on serving the needs of the small and micro-business segment, with loan amounts ranging from $25,000 to $150,000.

We appreciate Chairman Snowe's interest in hearing from lenders about these programs and are pleased to offer Capital One's perspective on recent activity around these two programs. Specifically: **(a)** the recent suspension of the 7(a) program, **(b)** the concept of a loan ceiling for 7(a) loans, and **(c)** the Administration's intent to take the 7(a) program to zero subsidy in 2004-5 in part via fee increases and a comprehensive guaranty reduction to 50%.

(a) The most important features of the SBA loan program are stability and continuity. This is true for both funding and program delivery.

    The suspension of the 7(a) loan program in early January negatively impacted 180 Capital One loan applicants. The vast majority of these applicants were awaiting approval of their SBAExpress loans at the Sacramento PLP/SBAExpress Center. When funding was resumed on January 13, the queue of loan applications was so long that SBA approval of the final applicant was not received until the first week of February. That represented nearly a four week delay in our ability to perform for our customers.

(b) Because Capital One provides loans up to a maximum of $150,000, the concept of a $750,000 loan ceiling is not disruptive to our business.

(c) Because Capital One is already engaged in the SBAExpress program, we are acquainted with managing credit risk with a 50% SBA guaranty. If necessary, we will expand that program to accommodate customer segments presently served by our LowDoc loan program.

However, as a lender focused on the small loan market, we can not support the Administration's proposal to significantly increase lender and borrower fees. In the short term, they would precipitate a decrease in our SBA lending activity; over the long term, we would likely stop participating in the guaranteed loan programs entirely.

While Capital One is very cognizant of the budgetary constraints facing Congress, the SBA loan programs are designed to provide incentives and facilitate the creation of new small businesses and therefore jobs. These programs have been very powerful tools to accomplish these goals, however the proposed modifications would likely make it difficult for lenders to participate, especially for those of us that engage in smaller loans.

Thank you again for the opportunity to provide these comments and encourage you to contact me should you have any questions. I can be reached at (804) 284-1035.

Very truly yours,

Susan E. Streich
Capital One
SBA Relationship Manager

UNITED PRAIRIE BANK

UNITED PRAIRIE
BANKING • LENDING • MORTGAGE
INVESTMENTS • INSURANCE

Main Bank: 110 W. Rose • South Branch: 1801 S. Cedar • Owatonna MN 55060-0567
Ph: 507.451.6300 • Fax: 507.451.6444
Email: owatonna@unitedprairiebank.com • Website: www.unitedprairiebank.com
An Affiliate of Farmers State Corporation

February 17, 2004

The Honorable John F. Kerry
Ranking Member
U.S. Senate Committee on
Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington D.C., 20510

Dear Senator Kerry,

I am concerned to hear word that the U.S. Export Assistance Center is in jeopardy of loosing funding and valuable personnel such as Nancy Libersky, the regional manager representing our bank.

Nancy and her office has been the link that has allowed our bank to finance companies that might not otherwise have access to this kind of funding. For instance, a company that I personally work close with, specializes in growing and producing non-GMO soybeans to export to Japan. Thanks to our relationship with the U.S. Export Assistance Center, we have been able to finance this business and the today the company is thriving. Even as a small company, they provide business for area farmers, employment to local population, US Exports to Japan, and the domino effect of business generation from trucking the beans to marketing the futures. **As you can see, small businesses such as this need specialized service, experience, and type of individual attention that Nancy provides - the type that large processing centers cannot match.**

I am requesting that the U.S. Export Assistance Center remain in tact as it currently is. The ripple effect of decisions made in Washington truly impacts the small businesses in Minnesota, the same small businesses that the SBA program was originally designed and implemented to assist.

Sincerely,

David A. Thamert

David A. Thamert
Credit Analyst

Danvers Savings Bank

MAIN OFFICE: ONE CONANT ST. DANVERS, MA 01923 • 978-777-2200 www.danverssavings.com

February 24, 2004

The Honorable Olympia J. Snowe
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Dear Honorable Olympia J. Snowe:

The purpose of this letter is to let you know the position of Danvers Savings Bank regarding the recent changes implemented in the 7A Program by the U.S. Small Business Administration. Specifically, these changes deal with the recently implemented loan cap of $750,000, the prohibition on "piggyback lending" and the proposed reduction in the guaranty rate to 50% across the board.

The loan cap of $750,000 will preclude this bank from financing the larger business acquisition loans and real estate loans that are not eligible for conventional financing. Over the years, Danvers Savings Bank has assisted in the financing of numerous small business acquisitions in eastern Massachusetts. These loans are typically not viable as a conventional loan due to a change in ownership and in many instances the lack of sufficient collateral. In regards to commercial real estate, prices in this section of the country have been escalating steadily over recent years. A $750,000 cap is not a realistic number in this market.

This limitation is the first part of a "one two punch". The imposition of the piggyback prohibition is the "second punch", and it is a curiosity. What does this have to do with the supposed funding issues? Of particular concern is the impact this prohibition will have on the working capital needs of a business. Where warranted Danvers Savings Bank has provided simultaneous SBA guaranteed term loans and lines of credit to borrowers. In some cases the term loans will have a working capital component, which is intended to fund the permanent growth of the business whereas the line is to be used to meet the short term funding needs. This type of simultaneous financing can no longer be done unless SBA gets first position on accounts receivable and inventory. Historically SBA would subordinate on these trading assets. This aspect of the prohibition is the most troubling of all.

Finally, the proposed lowering of the guaranty rate to 50% will simply result in fewer start-ups, fewer business acquisitions and fewer expansion loans being financed. The 25-percentage point reduction is significant. There are numerous loans in this bank's portfolio that would not have been made had the guaranty rate in place been 50%.

I hope these thoughts are helpful. Danvers Savings Bank is a strong advocate for SBA and was the first Mutual Savings Bank in the country to receive the designation of Preferred Lender. It has been our overwhelming experience that this Agency has played a very important role in helping people get into business and expand their markets. The recent changes imposed by SBA will make it more difficult for lenders such as Danvers Savings Bank to participate in this vital economic mission.

Sincerely,

Scott C True

Scott C. True
Vice President

To deliver exceptional service
to employees, customers & the community.

PRODUCTION FINANCE
INTERNATIONAL, LLC

4054 McKinney Avenue
Suite 212
Dallas, Texas 75204

Telephone (214) 219-2000
Facsimile (214) 219-0327

website:
www.productionfinance.com

The Honorable John Kerry
Senate Committee on Small Business Entrepreneurship
304 Russell Senate Office Bldg.
Washington D.D., 20510

February 11, 2004

RE: Hearings on SBA's 2005 Budget – U.S. Export Assistance Centers

Dear Senator Kerry,

In reviewing the recent 2005 budget request submitted by the President, I noticed some disturbing things in reference to SBA's deliverance of assistance to small business exporters in America. The SBA's 2005 budget request has eliminated the line item funding for its participation in the U.S. Export Assistance Centers (USEAC). The narrative in the budget makes it clear that SBA intends to deliver trade finance assistance to small business exporters and lenders desiring to learn how to participate in SBA's trade finance guarantee programs through Small Business Development Centers, Women's Business Centers, SCORE and the SBA District Offices. **We feel the elimination of SBA's participation in the USEACs and the elimination of SBA's International Trade Finance Specialists providing technical assistance to lenders and exporters would adversely impact access to capital by American exporters.**

District Export Councils (DEC) are organizations of leaders from the local business community, appointed by the Secretaries of Commerce, whose knowledge of international business provides a source of professional advice for local firms.

United States Export Assistance Centers (USEAC) are multi-government agency offices housing two or more government agencies, which have programs to assist U.S. small and medium sized exporters (SME) in gaining entry to or expanding their export markets. The main agencies in these offices are the Commercial Service of the Department of Commerce, the SBA, and in some cases Ex-Im Bank. This one-stop shop approach to assisting exporters has been very successful and has made for easy access to the all the main export agencies by American exporters.

The DECs have worked hand in hand with the government agencies housed in the USEACs to assist American companies in entering or expanding their export markets. The SBA USEAC representatives assist SMEs in obtaining essential working capital to facilitate exporting. They are also experts in other government and private sector financing and will make the appropriate referral. In FY 2003, SBA USEAC Representatives facilitated $488.0 million in loans to over 1600 American exporters. Those exporters have reported over $1 billion in export sales.
Small Business Development Centers (SBDC), SCORE, and Women's Business Centers, and even SBA District Offices may provide useful technical assistance as business generalists, but unfortunately they do not have the skill set or technical expertise in trade finance. Even SBDCs, which specialize in International Trade, lack personnel trained in trade finance. And, the limited budgets of these organizations would not provide sufficient funds to supplement their resources in this area.

The North Texas District Export Council feels it would be a tragic mistake to eliminate SBA's Trade Finance Specialist and the SBA participation in the USEACs. We are asking for your support in retaining the funding for SBA's USEAC participation.

Access to working capital is more difficult for small business exporters. Today the U.S. has a record breaking trade deficit. More than 96% of the U.S. exporters are small or medium sized businesses. It is essential that the U.S. government provide assistance to SMEs to increase exports, which in turn, creates jobs and assists with the trade imbalance. The SBA USEAC Trade Finance Specialists are highly trained and focused on providing that sorely needed access to capital needed by small business exporters.

Thank you for your consideration of this matter.

Sincerely,

Fred Waldkoetter
Chairman, North Texas District Export Council

From: Andy Weaver
Sent: Tuesday, February 10, 2004 1:41 PM
To: Martin, Sarah (Small-Business)
Subject: Lender's comment on 7a crisis

I am writing as a concerned taxpayer. I am deeply disturbed at the recent turn of events at the SBA. To lenders it is starting to appear as if the administration is trying to reduce or eliminate the SBA and I pray this is not true.

Large corporations will be net losers of jobs for the foreseeable future as they continue to outsource jobs and production to cheaper labor markets. America's small businesses on the other hand are creating jobs. Further more I can tell you from past experience that virtually 100% of entrepreneurs who come to me for small business loans got there experience working for other small businesses. It is at a small business where one can see all aspects of management and ownership, obtain the mentoring and experience needed to become a business owner. Large corporations are too divisional, too segmented to foster entrepreneurship. I am 100% certain the economic stimulus, the additional taxes, both income and payroll, created by the recipients of SBA 7a loans exceeds the costs of the program 10 fold.

We recently had to decline a loan request for a very successful former SBA borrower who was to open a second franchise location. His first store employs over 30 people and was made possible by SBA. He generates in excess of $150,000 per year of net profit from the store and pays his taxes. The new store would provide more than 30 jobs, would stimulate the local economy by providing a $1 million construction and equipment project and create annual revenues of over $1.6 million per annum and an additional $150,000 in taxable income for the owner. He is contributing $350,000 to the $2.1 million project. It cannot be done as a 504 loan as the proceeds include working capital as well as furniture and other costs excluded from eligible financing under 504.
The only way to do this loan is a $1,000 first TD and a $750,000 SBA second TD which is a "piggy-back" transaction and was recently prohibited by SBA in a policy notice. He would need at least an additional $350,000 to do this on a conventional or 504 basis, and he does not have that kind of capital. I have many more customers in a similar situation.

I can further attest that based on my 15 years of SBA lending that larger loans are the bigger boost to economic growth, they create more jobs and have a greater economic impact. The smaller loans while also important, tend to be mom and pop operations with few if any additional employees.

I implore you, please do everything you can to see that the SBA is fully funded as the economy needs the job growth to ensure a lasting recovery. This issue needs bipartisan support. Thank you for your consideration.

Sincerely,

Andreas C. Weaver
Senior Vice President, Gateway Business Bank (562) 403-6969

Community South

Small Business Lending Division
625 S. Gay Street, Suite 450
Knoxville, TN 37902
Phone: (865) 546-1176
Fax: (865) 546-9726

February 25, 2004

The Honorable Olympia J. Snowe
Senate Small Business and Entrepreneurship Committee
SBA FY 2005 Budget Hearing
Statement for the Record

Dear Ms. Snowe:

As a employee of Community South Bank, I am writing to request assistance with the current funding dilemma relating to the U.S. Small Business Administration and its 7(a) Loan Guaranty Program. Under the current order from SBA Adminstrator Barreto the maximum 7(a) program loan size has been capped at $750,000 as compared to the previous $2 Million ceiling. In addition lenders are prohibited from making "piggyback" 7(a) loans as they have for decades in the past. I feel the problems with the 7(a) cap and the halt of "piggyback" 7(a) loans need to be resolved as soon as possible. I have 9 argumentative points listed below. They are listed as follows:

1. The 7(a) program is much more flexible than the 504 program and provides not only fixed asset financing but also critical working capital and refinancing funds where the 504 program cannot.
2. The capping of 7(a) loans at $750M has a definite negative impact on small businesses in need of access to capital for real estate acquisition and expansion purposes.
3. The capping of 7(a) loans also has negative impact on a borrower's ability to refinance its debts to provide internally generated working capital for future growth. By being able to refinance debt through the SBA, a borrower will often times save up to 40% on its monthly cashflow. This is cash that can be poured back into the business to fund future growth.
4. The loan volume that was denied when SBA shut the program down in January, 2004 reportedly exceeds $600MM thereby demonstrating the demand for access to piggyback loans and loans over $750M.

5. If the Administration moves forward with the proposed overhaul of the 7(a) programs into one which closely resembles the SBAExpress program with 50% guaranties, the small business community will be grossly underserved as the major 7(a) lenders will move out of the program leaving it to the large national banks (Bank of America, Wells Fargo) and super-regionals who are only interested in funding very small SBA loans to meet CRA requirements. These are in SBA lending one day and out the next. Therefore, rhte program and its recipients become very vulnerable to the credit whims of the large banks.
6. We utilize the 7(a) program for startup companies, growth companies mature-declining companies who are re-inventing themselves. Furthermore, we use the 7(a) program for single-purpose properties such as motels, convenience stores and car washes- industries that struggle for access to loan funds. In general, these loans exceed $750M.
7. The lending institutions that have devoted the time and manpower over the years into learning and supporting the SBA and its programs are the very ones that are being penalized by the proposed changes. Furthermore., every small business in America in going to be effected by the restriction of access to capital.
8. The 7(a) program in one of the few government programs that generates a measurable impact on the growth of small business nationally, all for a 1.06% subsidy.
9. The lenders are not opposed in general to a zero subsidy or reduced subsidy program; however, it must be done in a manner that maintains the integrity of the program and the marketability of the program for the lenders to its customers.

Thank you in advance for your time and efforts.

Respectfully,

Tracy Weldon

Tracy Weldon
Community South Bank

SULTA MANUFACTURING CO.

P.O. Box 597 Sulphur Springs, TX 75483
Phone: (903) 885-2139 FAX: (903) 885-5316

17 February 2004

The Honorable John F. Kerry
Ranking Member
U.S. Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

This administration is again proposing to eliminate funding for SBA's United States Export Assistance Center program. And to get directly to the point, we are seeking Senator Kerry's assistance in obtaining funding for the USEAC program in Congress's final appropriations bill.

As a recipient of USEAC services and current exporter of U.S. manufactured goods, we can readily attest to the value of the program to small and medium size businesses. Without the assistance provided by our USEAC, we would not have a working capital line of credit to fund our export orders. Small banks in the United States are not staffed (nor could they afford to be) to finance international transactions without the assistance and services provided by a USEAC.

It appears reasonable to this U.S. citizen and Vietnam veteran that if the U.S. Government can expend billions of dollars to invade Iraq and maintain an indefinite presence there, surely we can fund a program that allows small U.S. companies to participate in a global economy.

Respectfully submitted,

L. D. Willmann

Statement of

Donald Wilson

President, Association of Small Business Development Centers

February 12, 2004

Submitted to the

U.S. Senate Committee on Small Business and Entrepreneurship

Senator Snowe, Ranking Member Kerry, and Members of the Senate Small Business Committee; I am Donald Wilson, President and CEO of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the sixty-three State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC programs are located in all fifty-states, the District of Columbia, Puerto Rico, The Virgin Islands, Guam and American Samoa. The SBDC network is the federal government's largest small business management and technical assistance program with approximately 1,000 service centers nationwide serving more clients than all other Small Business Administration assistance programs combined.

Madam Chair, I would like to thank you and the Senate Small Business Committee on behalf of ASBDC, and the nearly 6,000 dedicated men and women who are a part of America's Small Business Development Center Network, for inviting the Association to submit testimony for the record on the Administration's FY 2005 budget for the Small Business Administration. In light of the nation's current economic conditions, it is extremely important that this committee and the Congress focus attention on what federal resources will be allocated in FY2005 to assist and support the small business sector of the economy which represents fifty-two percent of the nation's Gross Domestic Product (GDP). And rather than simply focusing on what the Administration's budget proposal means to small business, we need to focus on what it means for our entire economy.

I would also like to take a moment Senator Snowe to thank you, Ranking Member Kerry and the members of this committee for all of your efforts on behalf of small business throughout the 108th Congress. This committee last session reported out legislation to reauthorize SBA programs and quickly moved a temporary reauthorization bill when that became necessary. You have worked hard to help address the immediate crisis a few weeks ago in the 7(a) loan program which is critically important to so many small business owners and SBDC clients.

We hope members of this committee will work closely in conference with members of the House Small Business Committee so that the SBA reauthorization bill can be finalized and sent to the President. We would also encourage you Madam Chair to markup the National Small Business Regulatory Assistance bill at the earliest opportunity. This committee overwhelmingly approved that legislation in 2002. It has now passed the House three times by overwhelming bipartisan margins. This committee needs to act on that legislation so that it can move to the full Senate. Small businesses need regulatory compliance assistance and they need it now.

Let me focus my comments for a few moments on the general state of the nation's economy, the overall SBA budget for FY 2005, and the contribution of small businesses to our economy. I will then focus my remaining comments on the Administration's proposal to reduce the federal funding level for the SBDC national program to $88 million and what we believe is truly needed to adequately fund this vital program.

Members of this committee are well aware that the general health of the nation's economy, while apparently improving, is tenuous at best. Current economic data demonstrates that the economy is sending mixed signals. Fourth quarter GDP was a relatively strong 4.0 percent. However, that rate of increase represented a sharp drop from the third quarter's 8.2 % GDP growth. And many question whether 4% growth is sustainable.

Productivity for non-farm businesses rose 2.7 percent in the fourth quarter. But that was down sharply from the 9.5 percent growth in the third quarter. While productivity is up significantly during the last six months, that rising productivity uncharacteristically is not being translated into wage growth. Average hourly wages in December only increased from $15.47 to $15.49. Wage growth is crucial to sustain consumer spending, which is so vital to this economy. Consumer spending rose only 2.6 percent in the fourth quarter of last year. That represents a sharp slowdown from the 6.9 percent gain in consumer spending from last year's third quarter.

Individual bankruptcy filings were up in 2003. Fortunately, in 2003, business bankruptcy filings stopped rising and actually fell by 5.2 percent to 37,182 from 39,201 in 2002. And the stock market improved significantly during 2003.

But the real issue as always is jobs. The lack of job creation is of paramount concern to everyone, especially the millions of Americans who are currently out of work. The nation's unemployment rate, based on the household survey, declined from 5.9 percent in November to 5.7 percent in December and to 5.6 percent in January. Disturbingly, however, the number of initial jobless claims for the week ending January 31 increased by 17,000 to 356,000. In December we know that the decline in unemployment was directly attributable to the fact that more than 300,000 Americans gave up looking for work during December and left the labor force. In other words, the civilian labor force actually declined by 309,000 in December.

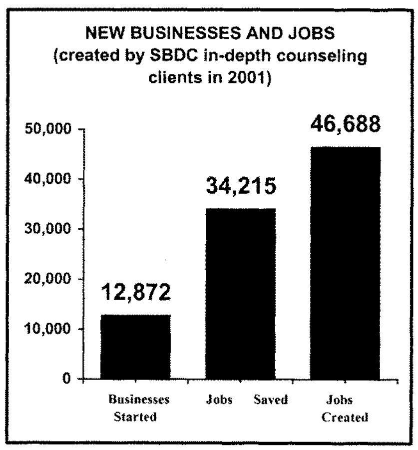
Despite significant economic stimulus from tax cuts that took effect last summer, the economy was only able to create 16,000 new jobs in December, 149,000 below the consensus estimate. And October and November payroll jobs were revised downward by 51,000. From the first of September through the end of December, the economy created 278,000 net new private sector jobs, an average of 70,000 jobs per month. That's an improvement compared to previous months. However, it is an extraordinarily weak figure when compared to the average of 210,000 jobs created per month during the period from January of 1992 through December of 2000. January job creation improved to 112,000 but that was 32% below the level anticipated by a consensus of leading economist.

In December, employment in retail trade declined by 38,000. Manufacturing employment, which I know is of particular concern to you Madam Chair, was down by 26,000 in December. The nation's manufacturing sector lost 516,000 jobs last year and has shed 2.8 million jobs since July 2000, the last month it recorded a gain. In January, the nation's manufacturing sector lost another 11,000 jobs, the 42nd straight month of falling factory payrolls. Today, nearly 9 million Americans are unemployed. Another 5 million are working part-time who would rather be working full-time. And 2 million

Americans have been jobless for 26 weeks or more, the highest level of long-term unemployment since 1984.

And what is the reaction of respected economists to last Friday's employment numbers? For example, Dr. Lara Rhame, former Federal Reserve economist and now senior economist at Brown Brothers Harriman said last Friday, "The report is certainly better than in December, but it just doesn't reflect the level of job creation we'd expect to see at this stage of the economic recovery." Richard Yamarone, chief economist at Argus Research said, "Two and a half years into this recovery, and the economy can only muster up 112,000 new jobs? That's a bad number, not a good number." I think Mr. Yamarone's comments reflect the reaction of most Americans. Last year at this time, the annual Economic Report of the President predicted the economy would generate 1.7 million jobs during the year. But the economy actually lost 53,000 jobs. On Monday, the newly released Economic Report of the President predicted job creation for this year at 2.7 million. We hope that report is more accurate than its immediate predecessor.

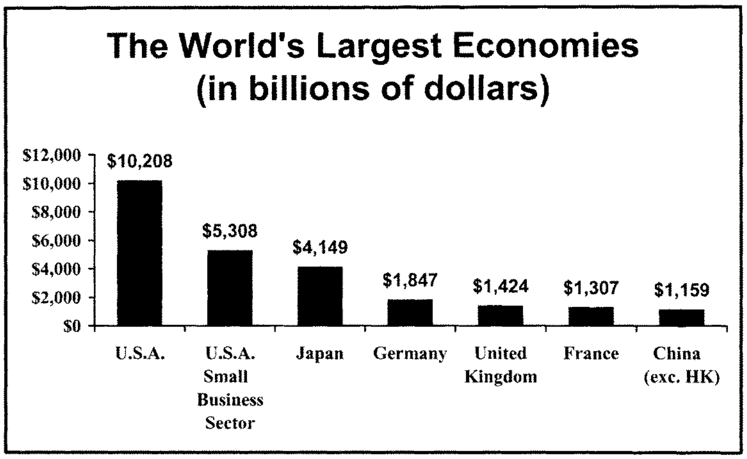
When Congress passed the Administration's tax cut package last summer, administration economists predicted those tax cuts would generate an additional 510,000 jobs by the end of 2003, above and beyond the number of jobs that an economy two years into recovery would normally be expected to produce. We now know that the 2003 level of job creation predicted to result from the tax cuts was not achieved. The Council of Economic Advisors (CEA) projected 5.5 million new jobs overall from July 2003 through the end of 2004. In the six months since the tax package was adopted, the economy has generated less than 350,000 new jobs. It is now evident that the level of job creation which the CEA predicted to occur by the end of 2004, and that we all hoped for, will almost certainly not be realized.



When reflecting on these disturbing unemployment numbers, I hope the committeee will consider the findings of a Census Bureau working paper released early last year and authored by Zoltan Acs and Catharine Armington of the Center for Economic Studies. Their research found that "establishments that were less than two years old accounted for all net job growth" in the study period, 1995-1996. The working paper went on to report that "although most people work in older establishments, growth comes primarily from new establishments." (*Endogenous Growth and Entrepreneurial Activity in Cities by* Zoltan J. Acs and Catherine Armington, Center for Economic Studies, U.S. Bureau of the Census, Working Paper #CES-WP-03-2, January 2003). I should also point out that the 2002 economic impact study of SBDC long term counseling conducted by Dr. James Chrisman of Mississippi State University, (formerly with the University of Calgary), reported that **SBDC long term counseling clients generated 46,688 new jobs in 2001**. The Chrisman Study also reported that an additional **34,215 jobs were saved due to SBDC**

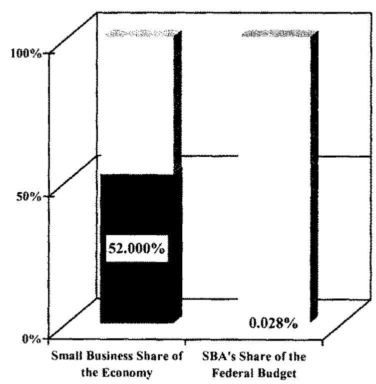
counseling and that **the average change of employment rate for SBDC established business clients was 8.4%, over ten times the rate of the average U.S. business.**

This committee is aware that America's small business sector employs 51% percent of non-farm civilian workers, creates roughly two-thirds of all new jobs and contributes roughly 42% of treasury receipts. This committee is aware that the small business sector of the American economy is responsible for 52 % of the nation's gross domestic product. But are you aware that the small business sector of America's economy is effectively the second largest economy in the world? Let me repeat that statement if I may. **The small business sector of America's economy is effectively the second largest economy in the world!**



Our nation's gross domestic product for 2002 was $10.2 trillion. The gross domestic product generated by this nation's small business sector in 2002 was just over $ 5.3 trillion. That figure is larger than the entire Japanese economy. The GDP generated by America's small business sector is larger than the economies of Germany, France and Great Britain combined. Those three countries have the world's third, fourth and fifth largest economies. The gross domestic product generated by the small business sector of America's economy is larger than the total GDP of Canada, Mexico, Spain, Brazil, India, Korea, the Netherlands, Australia, the Russian Federation, Taiwan, Argentina and Switzerland **combined!** Those countries I just named are not third world undeveloped countries. Those nations are twelve of the 20 largest economies in the world. And to assist and help sustain the well-being of the 23 million American small businesses that are responsible for providing 52 % of this nation's GDP, our nation's budgeters are able to find just $678.4 million for the Small Business Administration out of a $ 2.4 trillion dollar budget. Those who crafted the Administration's FY 2005 federal budget are overlooking the obvious importance of the nation's small business sector to the present and future economic well being of this nation.

Small Business Share of the Economy vs. SBA's Share of the Federal Budget



Some will respond that, at a time when we are fighting a war against terrorism, it is not reasonable to expect a larger share of the federal budget to be directed toward the needs of the small business sector of our economy. I would not presume to tell the Congress what is a reasonable figure for the SBA. But what I can tell you Madam Chair is that, at the height of the Vietnam War, Congress allocated two-tenths of one percent (.2%) of the 1968 Federal budget to the SBA. As recently as 1980, the SBA budget represented three-tenths of one percent of the federal budget. **The budget the Administration submitted to the Congress on February 3 rd, allocates only three-one hundredths of one percent (.03%) of federal resources to the SBA.** And the SBA budget essentially represents the federal government's resource commitment to small business. I cannot imagine that this committee with its understanding of the contribution that small businesses make to our economy can possibly believe this stunningly low figure represents a prudent allocation of federal resources.

With the economy continuing to struggle and with small businesses responsible for 70 percent of job creation and 52% of GDP, it is difficult to understand why OMB would propose spending an SBA budget for FY 2005 that is $119.5 million less than OMB proposed for SBA for FY 2004. That amounts to a 15% cut in SBA funding. Surely, the nation's small business sector deserves better. Administrator Barreto has done a solid job at the agency, initiating creative and beneficial programs like the Business Matchmaking program which SBA partnered with HP. But it is doubtful that any SBA Administrator would be able to effectively meet the needs of 23 million small business owners with the limited resources proposed in the Administration's FY 2005 SBA budget.

The Labor Department's disturbingly weak employment numbers tell us that while small business job creation may be improving, it remains woefully inadequate. Attempted startups are increasing simply because hundreds of thousands of Americans, discouraged because they cannot find jobs, are turning to self-employment as a last resort to try and support their families. Many of these individuals have skills, but most have no business management experience or training. The unemployed furniture plant worker whose unemployment benefits have run out may be a fine carpenter. He or she may theoretically be able to craft cabinetry in the garage at home to sustain the family until economic times improve. But he or she likely has no experience in finance, marketing, developing a market niche, and they certainly do not know how to develop a business plan if they need access to capital. By providing displaced workers with the expertise and business management knowledge they need to be successful, SBDC's help thousands of unemployed persons who, of necessity have become aspiring entrepreneurs, to become successful business owners.

But America's Small Business Development Centers are certainly not just serving unemployed Americans who turn to self-employment out of desperation. The well regarded national survey on the economic impact of SBDC counseling activities conducted every two years by Dr. James Chrisman of Mississippi State University found that in 2000, fifty-three percent of SBDC long term counseling clients were established businesses and forty-seven percent were pre-venture clients.

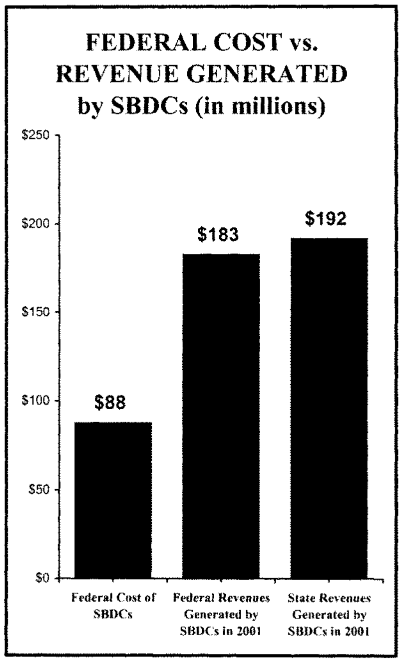
The latest SBA figures for the SBDC national program show that SBDC counseling cases and training attendees combined increased from 650,000 in FY 2002 to 685,000 in FY 2003. Counseling hours increased from 1.47 million to nearly 1.57 million. Training attendees increased from 384,000 in 2002 to 408,000 in 2003. Training hours increased from 1.58 million in 2002 to 2.08 million in 2003. These figures clearly demonstrate that America's small business owners know they need help and are increasingly seeking it from the SBDC national network. ASBDC and the men and women who work in the SBDC national program are proud of those increases in productivity. We hope this committee is as well.

And who are these men and women who are SBDC clients seeking assistance? They are far more than simply SBA statistics. They are hardworking men and women, with dreams like James M. McKim President and CEO of Cee Tox, Inc. in Kalamazoo Michigan, Senator Levin's state, Susan Wolfe with Palomino Mercantile, in Forsyth, Montana, Senator Burns state, or Susanne Joyce, President of Tech Guard Security in Chesterfield, Missouri in Senator Bond's state; Theresa Hoffman a founding member of Maine's Indian Basketmakers Alliance in your state Madam Chair; Patrick and Julie Miller owners of Razorback Feed & Supply in Searcy, Arkansas, Senator Pryor's state, Edward Mitchell, proprietor of Mitchell's Barbecue in Wilson, North Carolina in Senator Edward's state, Sushil Bhatia, President of JMD Manufacturing in Framingham, Massachusetts, Senator Kerry's state, and Carolyn Sluiter, owner of Freeport Home Medical Equipment in Freeport, Illinois in Senator Fitzgerald's state. I would encourage every member of this committee to seek out business owners who have used SBDC services to learn about the real difference the SBDC program is making in these people's businesses and in their lives.

SBA's latest figures show that **41% of SBDC clients nationwide are women. Twenty-nine percent of SBDC clients are minorities. Over 9 % of SBDC clients are self- identified veterans.**

Those who crafted the President's budget will no doubt argue that they cannot find additional resources for SBA or the SBDC program because of a lack of financial resources. And federal revenues today Madam Chair are significantly below what they were in FY 2000. In FY 2000, Gross Federal Receipts were $ 2.025 trillion. Federal revenues have now fallen for three consecutive years to $1.991 trillion in FY 2001, $1.853 trillion in FY 2002 and to $1.782 trillion in FY 2003. These numbers are particularly concerning when you realize that there has not been a three year decline in federal revenues since the 1920s. But providing additional resources to SBDCs is not a drain on the Treasury. In fact, for every dollar appropriated to the SBDC national program, the program generates a better than two to one return for the Treasury. And every dollar appropriated by the federal government to the SBDC national program to assist small businesses to survive, grow, and create jobs leverages at least an additional dollar in small business assistance. That is so because, as you know, to secure a federal dollar, SBDCs must raise a non-federal matching dollar.

The 2002 national survey on the economic impact of SBDC long term counseling, conducted by Dr. James Chrisman, reported that combined, the incremental performance of SBDC established business clients and pre-venture clients who started businesses, generated $182.9 million in new federal revenues in 2001 and an additional $192.3 million in state revenues. Comparatively, the SBDC national program received a federal appropriation of only $ 87.87 million in FY 2001.



More recent tax revenue figures from individual states are similarly impressive. Based on a 2003 survey of North Carolina SBTDC clients receiving long term counseling in 2001, Dr. Chrisman estimates that "the incremental performance of established business clients yielded $2.12 million in tax revenues; another $4.24 million in tax revenues were gained from pre-venture clients who started new businesses. The total amounted to almost $6.36 million in tax revues, of which approximately $2.74 million went to the state (North Carolina) and $3.62 million, went to the federal government." Please note that the North Carolina SBTDC received $ 2,248,292 in SBDC program funds from SBA in 2002.

Similarly in Missouri, based on a 2003 survey of SBDC clients receiving long term counseling in 2001, Dr. Chrisman estimates that "The incremental performance of established business clients yielded $3.7 million in tax revenues; another $3.9 million in tax revenues were gained from pre-venture clients who started new businesses. The total amounted to almost $7.6 million in tax revenues, of which approximately $3.9 million went to the state (Missouri) and $3.7 million, went to the federal government. Missouri in 2002 received $1,562,964 in SBDC program funds from the SBA.

And in Wyoming based on a 2003 survey of SBDC clients receiving long term counseling in 2001, Dr. Chrisman estimates that "The incremental performance of established business clients yielded $1.04 million in tax revenues; another $1.04 million in tax revenues were gained from pre-venture clients who started new businesses. The total amounted to $2.18 million in tax revenues, of which approximately $0.77 million went to the state (Wyoming) and $1.41 million went to the federal government. Wyoming in 2002 received $500,000 in SBDC program funds from the SBA.

And those numbers do not reflect what could be accomplished with a larger appropriation. Based on historical performance levels, an SBDC appropriation of $125 million (the level Congress authorized for FY 2003) would allow the network to assist its clients in generating over 100,000 new full-time jobs, and increase federal revenues by nearly $270 million and state revenues by nearly $400 million.

Madam Chair, I think this committee can readily see from the data ASBDC has provided that the level of new federal tax revenues generated by SBDC counseling clients is substantially greater than the appropriation the SBDC national program receives from Congress. And with the nation facing growing federal deficits it seems only logical that Congress would increasingly want to direct scarce federal resources to programs that have a positive return on investment (ROI). Unfortunately, that has not been the case.

Twenty-four state SBDC programs, including Illinois, New York, Missouri, West Virginia, Pennsylvania, Ohio, New Jersey, and Indiana receive fewer federal dollars today than they did in FY 2002. The SBDC national program in FY 2004 will receive less in actual dollars than it did in FY2003 and OMB has crafted a budget for FY 2005 that proposes to reduce SBDC national program funding even further.

The statistics, that I have shared with the committee today, demonstrate that the proposed FY 2005 Federal budget neglects the most critical job creating component of our economy, our nation's small and startup businesses. We can continue that neglect, but at what price? You need look no further than the millions of unemployed, the historically low level of job creation over the last three years, three years of declining federal revenues and record breaking budget deficits to know that we are not effectively allocating federal resources. Small businesses understand that to survive they must invest in those business lines that have a positive return on investment. Regretfully, the folks who prepared this proposed budget do not seem to understand that principal, perhaps because they have never had to meet a payroll.

The mixed economic data being released indicate that the economy is at a critical juncture. The Federal Reserve has reduced interest rates to the lowest level in 70 years to try and stimulate the economy. The Congress and the Administration have enacted significant tax cuts trying to stimulate the economy at the risk of the largest deficits in history in actual dollar terms, (not as a percentage of GDP.) And still the economy appears unable to generate jobs in significant numbers. I am certainly not wise enough to suggest what changes in fiscal or monetary policy can improve the current situation. I can tell you, however, that there is one small program that gets big results. And that is the Small Business Development Center Program.

This committee in 2000 authorized $125 million for the SBDC program for FY 2003. You did so because you understood the needs of small businesses. If the Federal government does not allocate resources to the SBDC program at a level approximating $125 million for FY 2000, the management and technical assistance needs of tens of thousands of small firms will go unmet and thousands of existing and prospective private sector jobs will likely be lost. My daughter graduated from college last May. She was fortunate and found work relatively quickly. However, I have watched as many of her classmates struggled to find jobs. My son graduated from high school last June. He was able to go on to college. But tens of thousands of young men and women who graduated high school last June are looking for work today. And some of them will be looking for work a year from now unless Congress does more to help small businesses generate new jobs.

Hundreds of thousands, if not millions, of small businesses are struggling to cope with skyrocketing health care costs, rising energy prices, declining sales, etc. Some of our SBDCs are working with the Health Care Leadership Council to develop tools to better educated small business owners about available options for employee health care. Working with the American Public Power Association, Energy Star for Small Business at EPA, the Department of Energy and Rebuild America, ASBDC has produced Energy Efficiency Pays, A Guide for the Small Business Owner. That guide is available to any small business owner on the ASBDC website. ASBDC and its members are working with the Department of Veterans Affairs, the Veterans Entrepreneurship Taskforce and the Veterans Corporation to launch a major initiative to provide long term entrepreneurial education to an increasing number of our nation's veterans. The Pennsylvania SBDC has introduced the Pennsylvania Material Trader, a new on-line service that makes it easy for small businesses to exchange and reuse traditionally discarded materials. Every day, SBDC counselors and center directors are developing new ideas and methods to help their small business clients survive and grow. These clients are in retail, service, and manufacturing. And reliable data demonstrates that SBDC counseling clients have a better chance of success than the average small business.

Research conducted for the Pennsylvania SBDC, by Dr. Chrisman found that 84% of Pennsylvania startup clients receiving counseling in 1992 were still in business in 2000. Seventy-five percent of startup clients receiving counseling in 1994 were still in business in 2000 and eighty percent of startup clients receiving counseling in 1996 were still in business in 2000. **This data indicates that startup firms receiving SBDC counseling have a survival rate approximately 35% higher than the general population of new businesses in the U.S.**

This committee has a unique insight into the needs of the small business community. You also understand better than most the contribution small businesses make to our economy. Madam Chair, very shortly now, you will be submitting a letter to the Senate Budget Committee regarding the needs of programs under this committee's jurisdiction. If this committee will not speak up and ask the Budget Committee to assure that the nation's small business sector receives a fairer and more realistic share of federal resources, who will? Congress needs to reassert itself in the budget process. OMB has essentially set budget priorities the last three years and the economic results are less than required to inspire continued confidence. And lest anyone think that I am being partisan and unduly critical of the current administration's budget office, I would remind this committee that in 1999 President Clinton's budget office recommended a $25 million cut in the SBDC national program for FY 2000.

On January 23rd of this year, President Bush told the U.S. Conference of Mayors that "When more people own a small business, when people are starting their own business, when people are creating small businesses, they're creating jobs." I do not doubt that the President believes what he said. Unfortunately, his views have not been effectively conveyed to those who crafted his budget. I hope this committee shares the President's view and that members of this committee will work with your colleagues in the Senate to help the President translate his words into deeds.

Madam Chair, we are not talking large sums of money. Doubling the funding level for small business non-credit assistance programs at SBA would be less than a rounding error at virtually every other federal agency. A continued lack of jobs threatens the economic security of this nation just as surely as foreign terrorist groups threaten our personal security. If Congress is in fact committed to stimulating job growth, then continued neglect of management and technical assistance for small business should no longer be viewed as a viable budgetary option for our nation. We believe the SBDC national program for FY 2005 needs to be funded at it's currently authorized level of $125 million. America's small businesses need and deserve no less. In FY 2001 the SBDC national program was funded at $87.8 million. The Administration's proposed SBA budget calls for funding the program in FY 2005 at $88 million. That figure will not even preserve the program at its FY 2001 level in real dollar terms. At an absolute minimum, we hope this Committee will advocate that the program be given enough resources for FY 2005 to match what it received in FY 2001 in real dollar terms. That figure would be $94.7 million.

In closing let me say that this committee has repeatedly spoken out against government policies that were not in the interest of our nation's small business sector. I hope all of you, regardless of party will speak out against what some fear is the gradual dismantling of the SBA and the continuing failure of the federal government to adequately fund small business management assistance programs.

Statement of
W. Kenneth Yancey, Jr.
Chief Executive Officer
SCORE
(Service Corps of Retired Executives Association)

To the

United States Senate
Committee on Small Business and Entrepreneurship
February 10, 2004

Madam Chairman, my name is W. Kenneth Yancey, Jr. and I am CEO of SCORE, the Service Corp of Retired Executives Association, headquartered in Washington, DC. Thank you for providing me this opportunity to offer written testimony regarding the proposed fiscal year 2005 budget for the U.S. Small Business Administration (SBA). I offer these comments on behalf of SCORE and the 10,500 volunteers who donate their time and talent to serve America's entrepreneurs and those that would like to start a business. I will restrict my comments to SCORE and the proposed 2005 budget for SCORE.

Let me start by pointing out that SCORE's 10,500 counselors make a material contribution to the strength of our nation's economy. In the hundreds of communities where they volunteer their time, they help people start new businesses or improve existing one, putting money into the local economies and creating jobs.

As the Committee knows, SCORE is celebrating 40 years of volunteer service in 2004. Since its inception, SCORE has provided assistance to more than 6.5 million businesses and individuals. SCORE's cadre of volunteers represents over 300,000 years of business experience and donated more than 1.3 million hours of volunteer service in fiscal year 2003. In 2003 SCORE was awarded the first ever USA Freedom Corps Award by the SBA and the USA Freedom Corps for outstanding volunteer service to America's entrepreneurs. Additionally, SCORE received a 2004 Award of Excellence from the American Society of Association Executives "Associations Advance America" program for providing business counseling. Based on an appropriation of $5.0 million, SCORE cost the federal taxpayer less than the federal minimum wage per volunteer hour. SCORE represents a very low cost and an excellent value for business advice from successful business men and women.

In its 40-year history, SCORE has continued to evolve as an organization to better serve its client base. Today SCORE boasts more than 389 offices and more than 800 additional branches or service delivery points. SCORE's email counseling continues to grow and improve and now represents 32 percent of SCORE's total counseling. SCORE chapters continue to develop, lead and promote workshops and seminars on topics related to starting, growing or managing a small business. In fiscal year 2003, SCORE's volunteers counseled 224,152 businesses and individuals in 335,983 sessions and provided 6,576 workshops and seminars for more than 137,153 people.

The continued growth in SCORE services is dependent on marketing and promotional efforts at both the local and national level. In an effort to reach out to more existing and potential small business owners, SCORE is partnering at the national level with companies that also serve the small business community including, The Company Corporation, the National Federation of Independent Business, Verizon, Ford Motor Company, Bank of America and The Ewing Marion Kauffman Foundation. In addition, the SCORE association office provides local chapters with various marketing and promotional tools that are used to create broader awareness about SCORE and drive clients to their nearest SCORE chapter. Chapters also develop local partnerships with the primary goal of reaching more small business owners and those that wish to start a business.

SCORE is working diligently to increase the diversity of its volunteer counselor base. Today SCORE's counselor cadre includes 20 percent women and minority volunteers. SCORE's goal is to improve to 25 percent by the end of this fiscal year. To assist in this valuable effort, SCORE has developed national relationships with the U.S Hispanic Chamber of Commerce, the NAACP and has developing relationships with the National Association of Women Business Owners and the National Association of Minority Automobile Dealers. SCORE is also preparing to pilot a project to recruit "E-volunteers." E-volunteers will work with SCORE and SCORE clients only online. SCORE believes that this type of volunteer opportunity will be appealing to a younger, more diverse group of potential volunteers and will help SCORE to achieve its goals. Locally, SCORE chapters have set goals for diversity depending on the diverse make up of the markets they serve. SCORE continues to address the business case for diversity in its communications, meetings and materials. SCORE's client base is fairly representative of the demographics of our country.

With only 14 paid staff members in the entire organization, SCORE is entirely managed in the field by volunteers. Some chapters contract for temporary clerical support to offset the increasing administrative burden that is required. While SCORE understands and is supporting new SBA EDMIS data collection requirements, their implementation will more than double the data entry requirements for SCORE chapters further increasing the administrative burden.

In the last 10 years, SCORE's appropriation from the Congress has increased from \$3.08 million to \$5.0 million. SCORE has put those funds to use efficiently and the result is broader geographic coverage through the opening of new chapters and branches, a successful Web presence at www.score.org, the debut of SCORE's email counseling capability, as well as improved quality and better administration of the program as a whole.

SCORE is level funded at $5.0 million in the SBA's budget as proposed by the administration. We consider level funding in a difficult budget environment a vote of confidence for the organization and appreciate the support of the authorizing and appropriating committees, as well as the SBA in this process. While we understand the reasoning behind level funding, SCORE will continue to have unmet needs, which, if met, would allow SCORE to further grow both the quantity and quality of the services it provides. These unmet needs include: the re-development and enhancement of SCORE's email counseling capability, additional support for local chapters, enhanced marketing and public relations outreach and for recruiting, orientation and training of new volunteers, as well as the development of new tools to be used in the counseling process. Increased funding would result in better quality service and services for more of America's potential and existing small business owners.

Madam Chairman, we appreciate the support of this committee and your personal support of SCORE in our 40th year. We also appreciate the 40 years of successful partnership with the U.S. Small Business Administration. Thank you again for this opportunity to provide written testimony and we would be pleased to respond to any questions.

Respectfully submitted,
W. Kenneth Yancey, Jr.
CEO
SCORE Association

BOSTON PRIVATE BANK
& TRUST COMPANY

February 11, 2004

The Honorable Senator John Kerry
Committee on Small Business and Entrepreneurship
304 Russell Building
Third Floor
Washington, DC 20510

RE: The President's FY 2005 Budget Request for the SBA

Dear Senator Kerry:

In reviewing the proposed SBA 2005 Congressional Budget Submission for the U.S. Small Business Administration, I was concerned to see that a 15% funding reduction is being proposed along with the elimination of the SBA's Export Assistance Centers. The proposed elimination of the Export Assistance Center is of significant concern. Although we have not had the opportunity to utilize the Boston Center on a frequent basis, Boston Private Bank & Trust Company does maintain a valued relationship with a client that maintains a guaranty through the Export Working Capital Program. This loan facility would not be possible without the guaranty offered by the Program. The clients business is solely reliant on exports and the international markets and would not be in a position to grow the business without access to the Center and the Guaranty Program, let alone remain in business.

Additionally, with the elimination of the Program and the Center comes the loss of a very valued resource. We are very reliant on phoning the Center for their expertise and quick response. It would appear to me that the elimination of the Center would be cause for concern of where lenders will go for the expertise we have come to know and value. If the Administration's cure for this is to have an alternative source such as SBDC, SCORE or some other economic development area within SBA handle, I am not confident that the expertise exists to continue to provide the level of service the lending and borrowing community has come to know and place high value.

It is very important that the Administration reconsider the elimination of the Guaranty Program; the Export Assistance Centers and especially the valued employees that staff the Centers with the invaluable information and assistance each and every one provides to us.

I welcome the opportunity to discuss this at further length should you desire. I can be reached at #617-912-1944.

Sincerely,

Thomas M. Young
Vice President

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