S. HRG. 107–694

THE SBA FISCAL YEAR 2003 BUDGET AND THE NOMINATION OF MELANIE R. SABELHAUS TO BE DEPUTY ADMINISTRATOR OF THE U.S. SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

FEBRUARY 27, 2002
MARCH 12, 2002

Printed for 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

81-910 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED SEVENTH CONGRESS

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The White House,

NOV 15 2001

To the

Senate of the United States.

I nominate Melanie Sabelhaus, of Maryland, to be Deputy Administrator of the Small Business Administration, vice Fred P. Hochberg.

GEORGE W. BUSH

THE SBA FY 2003 BUDGET AND THE NOMINATION OF MELANIE R. SABELHAUS TO BE DEPUTY ADMINISTRATOR OF THE U.S. SMALL BUSINESS ADMINISTRATION

WEDNESDAY, FEBRUARY 27, 2002

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

The Committee met, pursuant to notice, at 9 a.m., in room 428A, Russell Senate Office Building, The Honorable John F. Kerry (Chairman of the Committee) presiding.

Present: Senators Kerry, Levin, Wellstone, Bond, Burns, Bennett, Snowe, and Enzi.

Chairman KERRY. Good morning. Welcome, Mr. Administrator, and my colleagues.

We have a lot to accomplish this morning and we are going to move right to it. We start today with a hearing on the President's budget request, and then we will move to the nomination of Melanie Sabelhaus to be SBA Deputy Administrator. We are going to have a vote on the floor at about 10 o'clock. We will try to move as rapidly as we can and it may be that we just will not get it all done before then and I will come back afterwards.

Senator Bond has a particularly pressing schedule this morning, so I am going to turn to him for his opening statement.

Senator Bond.

OPENING STATEMENT OF THE HONORABLE CHRISTOPHER S. BOND, A UNITED STATES SENATOR FROM MISSOURI

Senator BOND. Mr. Chairman, thank you very much. Mr. Administrator, welcome. Ms. Sabelhaus, we are delighted to have you here.

I apologize, but the vote on the Senate floor that will start at 10 o'clock is on a very important amendment to a measure that I drafted. So I am headed to the floor to try to defend the compromise that I worked on with Senators Dodd and McConnell.

The Budget for the SBA is vitally important, as is the confirmation of Mrs. Sabelhaus to be the next SBA Deputy Administrator. I apologize for having to leave, but we do recognize that the Administration is off to a much better start this year with the budget request to increase spending to $798 million, recognizing the value-added brought by the SBA to the promotion of small business startups and expansion.

We do have some problems, however, with OMB and the calculation of the credit subsidy rate. They promised us last year that they recognized they had calculated too high a default rate, too high a cost; therefore the subsidy rate was too high, and small businesses have been paying an unintended tax to the Federal Government.

OMB did not follow through on their assurances to the Senate Budget Committee staff. As a result, we are left in a position of shortfall for the 7(a) business loan program and we would like to work with the SBA to try to get it straightened out. Based on OMB's assurances last year, we did not press for the additional funding we need to fulfill the expected needs of the 7(a) program.

I want to point out that the HUBZone program does have a $2 million request. The President has recognized the value of this program in bringing jobs and economic opportunity to chronically poor inner cities and rural counties. It permits the Federal Government to award prime contracts to small businesses located in our Nation's economically distressed cities and poor rural areas, so long as they employ at least 35 percent of their workforce from the HUBZones.

The HUBZone program produces a double bottom line. It promotes economic development, and it provides special contracting opportunities to small businesses willing to invest in these areas. The implementation of the program has not kept pace with the goals enacted in 1997. The previous administration had little or no interest in the value the HUBZone Program can bring to critical areas. I look forward to working with Administrator Barreto since the President has requested funding for the program. We will look forward to hearing the steps that the SBA will take this year, and the successes they will have in getting this program off to a good start.

We do have many other important issues. I assure you that once the battle is over on the floor today I will have some more time to work with you on them. I appreciate, Mr. Chairman, your allowing me to "speak and run", so to speak.

[The prepared statement of Senator Bond follows:]

U.S. SENATOR CHRISTOPHER S. BOND
Hearing on FY 2003 SBA Budget Request and
Nomination of Melanie Sabelhaus as SBA Deputy Administrator
February 27, 2002

Opening Statement

Mr. Chairman, thank you for convening this morning's hearing on the President's FY 2003 Budget Request for the Small Business Administration (SBA) and the President's nomination of Melanie Sabelhaus to be the new SBA Deputy Administrator. Both are pressing matters before our Committee that we need to address promptly. I realize the budget request and the President's nomination could each warrant a separate hearing; however, with the number of conflicts facing the Members of the Committee, I appreciate the willingness of my good friend from Massachusetts to bring both matters before the Committee in a timely manner. Before we begin this morning's fast-paced hearing , I want to extend a warm welcome to Ms. Sabelhaus to our Committee. I am sure today will not be her only appearance before us. Her nomination by President Bush will fill the most important remaining vacancy at the Agency.

The SBA Budget Request For FY 2003

The President's team is beginning to see the value of the programs at the SBA. We all recall the budget request set up last year. It called for deep cuts in the Agency and its most important programs. Congress rejected the proposed budget cuts and approved $768.5 million for the SBA' FY 2002 budget.

This year, the Administration is off to a much better start. The President's proposal to increase spending at SBA to $798 million recognizes the value-added that is brought by the SBA to our federal programs to promote small business start ups and expansion. There are

strong points in the budget request that are, unfortunately, offset by some problem areas that we in Congress will address and, hopefully, correct.

HUBZones

As Chairman Kerry and Administrator Barreto are well aware, I am a vocal advocate for the HUBZone program. The President's budget request of $2 million to fund the HUBZone program is a good start, and I applaud the President for his recognition of the value this program can bring to chronically poor inner cities and rural counties. As many of you know, the HUBZone program permits the federal government to award prime contracts to small businesses that are located in our Nation's economically distressed cities and poor rural areas and which employ at least 35% of their workforce that reside in HUBZones. The HUBZone program is one with as double bottom line: it will promote economic development in poor inner cities and rural counties, and it provides special federal contracting opportunities to small business who are willing to invest in the economically distressed areas.

Unfortunately, the implementation of the HUBZone program has not kept pace with the goals enacted into law by Congress in 1997. It was very clear the previous Administration had little or no interest in the program. Under Administrator Barreto's leadership, the President has again requested $2 million for the program. I would like to hear firsthand from the Administrator the steps the SBA will undertake this year and next to accelerate the growth of the HUBZone program.

Administrator Barreto, you can be sure I intend to work with my colleagues on the Appropriations Committee to increase the level of funding in the SBA budget for the HUBZone program so that the SBA can meet the most aggressive milestones you might set for the HUBZone program.

A laurel goes to SBA for its stewardship of the Small Business

Investment Company (SBIC) program. Last year, Congress approved a small increase in the annual fee paid by the Participating Securities SBICs, which allowed the entire program to proceed without the need for a Congressional appropriation. I was pleased to see that the fees paid by the SBICs to support this program will be reduced slightly for FY 2003.

The Administration deserves another laurel for its continued support for the SBA management assistance programs that help hundreds of thousands of small businesses every year. The Service Corps of Retired Executives (SCORE) is made up of nearly 12,000 volunteers working nationwide in 389 chapters. These very effective volunteers provide counseling and training to nearly 400,000 small businesses annually via face-to-face meetings and through Internet counseling, which is SCORE's latest success story.

The Small Business Development Centers (SBDCs) provide management assistance and training to over 600,000 small businesses each year through 1,000 locations located nationally, often associated with the state university systems. And the SBA Women Business Center program provides grants to non-profit organizations to train and counsel women entrepreneurs. The Online Women's Business Center provides 24-hour a day Internet site with information targeted specially for businesswomen.

We on the Committee are taking a hard look at the funding levels for these management assistance programs, which become even more important to small businesses during an economic downturn or recession. In particular, I am concerned about the comments included in the SBA budget request claiming that the Agency has been "inhibited" in its efforts to measure the success of the SBDC program. If this is actually the case, I would urge the SBA to work closely with the SBDC programs throughout the United States to develop a system that measures the level of help provided by SBDCs on a state-by-state basis. I am aware of the success of the SBDC program in my own State of Missouri, and the SBA may want to look closely at a system similar to the one used in Missouri to measure the

success of the SBDC program nationwide.

It is true with everything in government - nothing is perfect, and we can always find room to make improvements. In the case of the SBA budget request, while I have been able to recite many laurels for the President's and Mr. Barreto's support for our nation's small business community, there are a few offsetting "darts." There are a couple ongoing problems that need to be resolved very soon. I am very concerned about the difficulties we continue to experience with the credit subsidy rate for the 7(a) guaranteed business loan program and the 504 Development Company Loan Program.

Last year, Senator Kerry and I were joined by Mr. Manzullo and Ms. Velazquez in a request to the General Accounting Office (GAO) to examine the method used by the SBA and OMB to calculate the credit subsidy rate for the 7(a) loan program. The GAO analysis of the 7(a) credit subsidy rate showed rather convincingly that the OMB and SBA had overestimated the credit subsidy rate during the past decade, which had, in turn, caused more than $1 billion to be collected in excess fees and appropriations to underwrite the 7(a) program.

Last October, the Senate Budget Committee staff received assurances from the OMB that the 7(a) credit subsidy rate would not exceed 50 basis points (0.5 percent) in the FY 2003 budget request. This assurance was confirmed to me in letter from Senate Domenici. Because of the assurance included in the letter, I subsequently agreed to drop my support for a provision in the Treasury - Post Office Appropriations Bill to require the OMB to correct its model. Contrary to the assurances made by the OMB last fall, the President's budget request included a credit subsidy rate of 88 basis points (0.88 percent), which is 76 percent higher than the highest level cited by the OMB in their assurance to the Senate Budget Committee staff.

To some of you, this difference might seem slight. You might think

we're splitting hairs. But in realty, the difference is significant. The 38 basis points above the maximum level set by the OMB last fall means that Congress will need to appropriate at least an additional $45.6 million to fund the 7(a) loan program in FY 2003. Based on the GAO analysis of the credit subsidy rate, it will not be long before this additional appropriation along with some fees collected from borrowers and lenders will be found to be "excess" and will be sent to the General Treasury. It is clear that the SBA and OMB will be collecting fees that are well in excess of the needs of the program.

The 504 Certified Development Company is experiencing similar problems. When I first became Chairman of this Committee in January 1995, the 504 credit subsidy rate was about 50 basis points or one-half of one percent. This grew by 1200 percent in FY 1997. At that time, the SBA revealed that the recovery rate for defaulted loans was 44% not 80% as claimed in earlier budget request.

The two major variables in calculating the credit subsidy rate are defaults and recoveries. Since FY 1997, 504 program defaults have dropped from 18.8 percent to 8.3 percent. However, this decrease has been offset in part by a significant decrease in recoveries from 44 percent to 20%. At the same time recoveries are shrinking, the SBA reports to Committee staff that recoveries under the Liquidation Pilot, now a permanent part of the 504 program, are over 50 percent. Further, the Agency has claimed to have made significant savings under its Asset Sales Program, which has included a significant number of 504 loans. The success claimed by the SBA when compared with the projections in the credit subsidy rate seem to contradict each other.

At the same time fees paid by the borrowers, lenders and Certified Development Companies have been high, the program has sent millions of dollars to the General Treasury is fees collected that are in excess of funds needed in the program's reserve accounts. During the past two years, $270 million in excess fees collected from the 504 Program have been classified

in excess of the needs of the program. During this same period, Congress appropriated zero dollars ($00.00) to underwrite potential losses under the program, since the 504 program is supported entirely by fees paid from the private sector.

Under Mr. Barreto's leadership at SBA, I am pleased to learn that the SBA has hired the Office of Federal Housing Enterprise Oversight (OFHEO) to develop a new "econometric" credit subsidy model for the 7(a) Program in FY 2004 and the 504 Program in FY 2005. I hope Mr. Barreto and his team are successful. Four years ago, under a different SBA Administrator, the Committee was told, without equivocation, that the SBA was developing a new, econometric model to calculate the credit subsidy rate. Over the next four years, no econometric model was developed. But hundreds of millions of dollars of excess 7(a) and 504 fees were sent to the General Treasury.

The loan making policy at the SBA is to make more, smaller 7(a) loans. I will listen closely to Mr. Barreto's justification for this change. One thing would appear to be pre-ordained - this new policy will cause the credit subsidy rate to increase. As the "green eye shade types" have explained to me, when the 7(a) loans increase in size, the fees paid to the SBA increase but at a greater rate proportionally. Conversely, an increase in smaller loan volume accompanied by a decrease in larger loan volume will cause a proportionally larger decrease in the amount of fees collected by the SBA. This decrease, in turn, will cause the credit subsidy rate to increase, which will require a larger appropriation from Congress. Unless, these two alternatives occur: (1) fees paid by borrowers and lenders are increased or (2) the program size is decreased. Either alternative is harmful to the small business community.

As Administrator Barreto is aware, we on the Committee will be watching closely as he and his team work through the credit subsidy rate problems. I sincerely hope that when we gather here next year, I will be able to move the 7(a) credit subsidy rate issue from the "dart" portion of

my statement to the "laurel" side.

Melanie Sabelhaus Nomination

Ms. Sabelhaus, welcome to the Committee on Small Business and Entrepreneurship. Congratulations on your nomination by a President Bush to the second-in-command at the SBA. Your's is a very important position and is key to the long term success of the Agency. Before 1990, the Deputy Administrator position was not subject to the advice and consent of the U.S. Senate. The Congress enacted legislation that year to recognize the level of importance of this job. And you can be sure that I, as well as the other Members of the Committee, will be looking to you for your experienced leadership at the SBA, just as soon as we can vote on your nomination.

Since you were nominated, we have learned about your success in starting up a new, small business called Exclusive Interim Properties, Ltd. You were able to achieve a high level of success in your business that thousands of small business that turn to the SBA are looking to duplicate. Ms. Sabelhaus is bringing the type of experience to the SBA that is ideally suited to boost the Agency's mission. I would urge Ms. Sabelhaus to be forthcoming and aggressive as she grapples with her new responsibilities.

Mr. Chairman, I have gone on long enough. Thank you for the opportunity to address the hearing.

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

Chairman KERRY. Senator Bond, thank you very much. I appreciate your continued help and cooperation and look forward to working with you. Thank you very much.

We have two panels here. The first is representing the Administration and the second is folks who do the day-to-day work of assisting small businesses. I welcome you, Mr. Barreto. Thank you for coming. I know that the first 6 months of any job are complicated and this one has been more complicated by the events of the last months in this country. So I appreciate your efforts. I know the Disaster Loan Program has played a good role in helping some folks to recover from those events.

I want to thank you for extending the comment period on the proposed 8(a) HUBZone parity rule by 30 days. I would have hoped it might have been extended a little bit longer. I hope that if circumstances warrant it you might consider another 30 days or so. I am not suggesting forever, but I think that it may prove helpful in terms of trying to get some of the comment that we want to get.

As you know, Mr. Administrator, I support equality or parity between the 8(a) and the HUBZone programs. That was something that Senator Bond and I worked out very carefully and it represented a number of years of resolution of the conflict of views up here on the Hill, both between the House and the Senate.

We passed that. We actually codified it and I have some concerns over the rule. I will express them to you in writing, and I might ask you a few questions about it today.

Let me just say on the budget overall, it is not as bad as last year's, as Senator Bond has indicated. It is a better budget than last year because last year did not make sense. It was a request for $539 million last year and this year it is $798 million. The problem still remains that on close examination, and the Committee has engaged in some of that examination, there are some serious hurdles with this budget still. There are some problems. I certainly want some dialogue about that here today.

The most significant of which is a 50 percent cut in 7(a) loans. You hear this claim that there is a 4 percent increase but once you go through the budget and really look at it you see that the increase is primarily in administrative expenses and in staffing. It does not a lot to put money out there, in terms of help to businesses.

For instance, for the BusinessLINK, there is no funding. That is the second year in a row. For the Small Business Development Centers it is level funding, but if you include the carryover funding, it is a cut. The Business Information Centers and Women Business Centers are level funded. The Microloan technical assistance is cut. That is the second year in a row that has been cut. PRIME has no funding. That is the second year in a row.

So those I think are serious concerns. Microloans got a 4 percent increase. That is obviously better than last year's 10 percent decrease but it is still a net 6 percent decrease over where we were and it is 73.5 percent less than the authorized level. The reason

this Committee authorized that level is because we really thought that that is what we ought to try to get to.

The other problem is there is an increase in Microloan funding, the 4 percent I just mentioned, but then there is a cut in the complementary technical assistance. We on this Committee have been struggling for a long period of time now to link technical assistance because it is such an important part of making the program a success.

The 7(a), as I mentioned, is actually cut in half. So every State is going to see a 50 percent reduction in 7(a) lending, and I think that is a very serious issue.

I am not going to go through every aspect of the budget, but I do think there are some good parts of it. I know we are all working with some difficult choices here, but since we have not passed a stimulus package, since we are already spending money in deficit, and the deficit is because of two rationales. No. 1, “we are at war” and No. 2, “we are in a recession.”

Once you have made that decision, there is no macroeconomic difference between being in deficit $60 billion or $64 billion. To shortcut the very things that could make up for stimulus, not in partisan terms but just in economic terms, does not make any sense to me. It just does not make any sense. Small businesses need help. Those small businesses are going to kick this economy back into gear.

So if you are prepared to spend some deficit for homeland defense and the war, as we all are, and we were prepared to spend almost $60 billion-plus on a stimulus that we have not now passed, I do not know why we do not do a one-for-one here and say at least get some of this money back into the hands of small business. I am going to urge the Administration very strongly to try to embrace that approach.

Let me turn to Senator Burns.

[The prepared statement of Senator Kerry follows:]

Statement of Chairman John F. Kerry
Hearing on the President's FY2003 Budget Request for the SBA
and the nomination of Melanie R. Sabelhaus to be SBA Deputy Administrator
Wednesday, February 27th at 9 a.m.

Good morning. Thank you for being here today. We have a busy schedule. First, we will hold a hearing to review the President's FY2003 budget request for the Small Business Administration (SBA), and then we will hold the confirmation hearing of the President's nominee for the deputy administrator of the SBA, Mrs. Melanie Sabelhaus. Mrs. Sabelhaus, welcome and congratulations.

With that, let us begin the budget hearing. We have two panels, the first representing the Administration, and the second made up of representatives who have the day-to-day responsibilities of running some of the SBA's programs. They have been asked to give us their assessment of how the budget, if implemented, would affect small businesses.

Mr. Barreto, welcome, and thank you for testifying today. The first six months on any job are hard, and I know yours has been particularly demanding because of the terrorist attacks. We all know that the SBA's disaster loan program has played an important role in helping home owners and small businesses recover. I appreciate your coming today and hope that you will stay throughout the hearing to hear what all the witnesses have to say about the budget request and other matters that affect their programs.

Before turning to the budget proposal, I would like to thank you for extending the comment period on the proposed 8(a)-HUBZone parity rule by 30 days in response to my request. While I appreciate your prompt decision, I was hoping for a slightly longer extension. I hope you will consider an additional extension should the situation warrant it, say another 30 days.

Also, as you know, I support equality or parity between the 8(a) and HUBZone programs. In fact, I introduced the amendments that passed this Committee to change the HUBZone program from one of HUBZone priority to one of parity between the 8(a) and HUBZone programs. I do have some concerns over the proposed rule, and I will address them in a comment letter to the Agency. I also have questions about this issue, but I will ask those after your testimony.

Mr. Barreto, I have reviewed the President's FY2003 budget for the SBA. Overall it is not as bad as last year's, but it is not good. Once one gets past the request of $798 million, which is far better than the unreasonable request of $539 million last year, and examines where the funding actually goes, in effect this budget is very much like last year's. In some cases it really is worse, and by that I am referring to the 50 percent cut in 7(a) loans. The claim of a four-percent increase sounds good to someone who doesn't have the time to comb through 148 pages of the Agency budget, but that increase is primarily in administrative expenses and staffing, and does very little to help small businesses.

Let me give you examples, starting with business counseling and training assistance, which are so important to small businesses trying to manage their businesses in this troubled economy:

- BusinessLINC. No funding. Second year in a row.
- Small Business Development Centers. Level funding, or a cut if you include carryover funding.
- Business Information Centers. Level funding.
- Women's Business Centers. Level funding.
- Microloan Technical Assistance. Cut funding. Second year in a row.
- PRIME. No funding. Second year in a row.

Now let me list what this budget does to the SBA's successful loan and venture capital programs:

- Microloans, that help the smallest borrowers. These are direct SBA loans funded through appropriations. They got a four percent increase. That's better than last year's ten percent decrease, but the request is 73.5 percent less than the authorized level. The other problem with this request is that you slightly increase funding for microloans but then cut the complementary technical assistance which is essential to the program's good loan performance. The technical assistance was inadequate at last year's level, so lowering it for this year lacks common sense.

- 7(a) Loans. These are funded through appropriations. They got cut by 50 percent. That means that every state's 7(a) loan dollars will be cut in half. The request is 70 percent less than the authorized level.

● 504 Loans. These are funded through fees, so need no appropriations. However, those fees to support the same program level increased, so small business borrowers will have to pay more to get the same loan dollars. Additionally, the request is ten percent less than the authorized level.

● SBIC Participating Securities and Debentures. Both of these venture capital programs are funded through fees and do not require appropriations. They got increased program levels of 14 and 20 percent respectively. In fact, these are the only two credit programs for which the Administration requested the full authorized levels.

This budget just does not make sense given the economy. The Federal Reserve's lending studies over the past year show 40 percent of banks have cut back on lending to small businesses, making loans harder and more expensive to get. Last year business bankruptcies were up a record 13 percent, and 2 million people lost their jobs. College graduates are facing the tightest job market in years, with national unemployment between the ages of 20 and 24 at 9.6 percent compared to 6.9 percent last year. Historically, small business has lead us out of a recession, and this recession is no exception. Simply put, small business stimulates job creation. Last year virtually *all* new jobs were created by small businesses. Faced with these realities, what does the Administration do? Cut its largest small business lending program by 50 percent.

SBA's own budget says that "every $33,000 in loans to small businesses leads to one job created." How is it logical, given all of those facts, to cut your largest lending program by 50 percent? And to compensate for under-funding a core program of the Agency, your solution is to pit the program against the popular 504 loan program. It's just more of last year's budget gimmicks.

Let me also say that blaming the shortfall in 7(a) funding on Congress because we passed, *and the President signed*, a bill to lower fees on the 7(a) borrowers and lenders is misleading. There's not enough money because you didn't request enough. That was your job. Your job also was to come up with a way to calculate the subsidy rate for the program that more accurately reflects its performance. You didn't do that either. You chose a Band-Aid approach so that you could claim that you did something. The fact is, even if the subsidy rate had gone to zero, the fees were too high. So high that when GAO reviewed the loan program's subsidy rate

model at our Committee's request, it found that 7(a) borrowers and lenders had been overcharged by more than $1 billion since 1992. Our job was to provide fee relief to borrowers and lenders so that small businesses paid a fairer price when accessing the capital and lenders could afford to make the loans.

According to the President's budget, 7(a) borrowers and lenders will return $179 million to the Treasury this year, FY2002. That's just about what we need for FY2003 to leverage $10 billion in working capital loans. The money is there to fund this program, the Administration just didn't consider it a priority.

If the Administration's budget doesn't adequately fund loans or management help and counseling, where does the extra money go? To Presidential initiatives and administrative costs. I support initiatives that will make the Agency better, and I commend you for allocating resources to foster business creation among Native Americans. But you must also take care of the basic mission of the Agency that you have been entrusted to run and lead. This budget request leaves the challenge to our Committee, to our colleagues on the Budget and Appropriations Committees, and to all the advocates in this room, to restore the shortfalls. Last year, excluding the absurd disaster loan program proposal to increase interest rates on victims, this Committee had to fight to restore $264 million. This year it's about $150 million.

I realize you worked hard to eliminate controversial budget proposals of last year, such as increasing the already high fees on 7(a) borrowers and lenders; cutting the SBDC program and shifting the cost to SBDC clients; and increasing the interest rates on economic injury disaster loans. I appreciate that, and so do the small businesses that get help from these programs.

However, this is of little consolation considering the work before us. This budget lacks adequate funding for its core programs, and the subsidy rate problems are a poison pill for 7(a) working capital loans, 504 real estate and equipment loans, and microloans.

I look forward to your testimony, Mr. Barreto. Senator Bond, would you like to make opening remarks?

OPENING STATEMENT OF CONRAD BURNS, A UNITED STATES SENATOR FROM MONTANA

Senator BURNS. Thank you, Mr. Chairman.

I will just put my statement in the record, Mr. Chairman, in the sense of time. I have to go to the floor, too. I have to defend my honor this morning, I am told.

But we have looked at the budget and we think there are some shortcomings where I think they can be dealt with. Our SBIR programs—I know in Gallatin Valley in Montana we started an incubator there some 10 years ago. Small manufacturing in the Gallatin Valley, in Bozeman, Montana, that payroll has now replaced Montana State University. That is huge when you talk about Montana.

It has all been because we have been very active in the SBIR, the incubators. We have done some very innovative things. Of course, located next to a university where you have a lot of R&D activity, it gives rise to some opportunities that normally we would not have.

So we will talk about this as we work our way through it. I am going to put my statement in the record, and I appreciate the Chairman having this hearing.

I would go on record as supporting the deputy director that has been nominated by President Bush. I thank the Chairman.

[The prepared statement of Senator Burns follows:]

STATEMENT

BY

SENATOR CONRAD BURNS

COMMITTEE ON SMALL BUSINESS HEARING

ON THE

FY 2003 U.S. Small Business Administration Budget Proposal

27 February 2002

Thank you, Mr. Chairman. After reviewing the President's proposed FY 2003 budget for the Small Business Administration (SBA), I can see that this budget does provide a lot for small business and overall, I believe, is a good proposal, and I am left with the impression that it is fiscally responsible. I know that, in light of the tragic events of September 11, some domestic programs have taken cuts this year. In light of this, I do commend the folks who pulled together this budget submittal, which is certainly no easy task.

However, there are a few areas which I know have caused concern within Montana's small business community and these are the issues I will touch on this morning. I do have some other concerns, which I will not get into with a great

deal of detail this morning, because I think other members will cover those issues, but do want addressed at a later time. I will spend the majority of my time speaking on the specific programs which are so important to my State of Montana, and I would suspect, other rural, low population states, where the majority of business **is** small business.

First, the 7(a) Loan Guaranty Program was created as one of SBA's primary lending programs and provided loans to those unable to obtain funding through commercial or other means. The 7(a) program is frequently recommended to those unable to secure traditional financing for equipment or working capital, etc. Private-sector lenders provide these SBA-guaranteed loans and do not require business investment up-front, which is a great advantage to a small business starting out. What concerns me is the fact that this program has been cut to $4.85 billion in FY03 from $9.353 billion in the FY02 budget request. The funding has essentially been cut in half. While I cannot be exactly sure what will happen as a result of this 50% reduction, I do know that in such trying economic times, this gives me pause.

Moving on... Back in the 1980's, the Small Business Innovation Research (SBIR) program was established within the major federal research and development agencies. The intent of which was to increase government funding of small, high technology companies for the performance of R&D with commercial potential. This push continues today.

I, along with many of my colleagues, believe that our technology-based companies under 500 employees tend to be highly innovative. This innovation is **essential** to the economic well-being of our country – especially now, in such trying economic times. SBIR makes sure that these small, high-tech firms participate in the federal R&D endeavor. We must also make sure that small companies in rural states and low-population areas are given the same opportunities as those located in more populous areas. The SBIR Rural Outreach Program does this.

The Rural Outreach program is especially important to my State of Montana, as most of Montana's businesses **are** small businesses. Many of these small Montana-based companies are high tech firms, looking for ways to expand their

research and development opportunities. SBIR plays a vital role in allowing these small companies to do just that. This program has proven enormously successful in rural communities over the past few years, but successful continuation is impossible absent a steady funding level each year.

In addition, we must make sure these programs are running as intended. SBA must insure that agencies abide by SBIR/STTR statutes and Policy Directives, in addition to the many other issues that SBA needs to safeguard. These are competitive programs and must remain so. A wound, left unchecked, only deepens with time.

Small businessmen and women across this great land depend on you, the SBA, to aid and advocate on their behalf. I look forward to working with my colleagues on this committee, those at the SBA and, most importantly, the small business community in making sure these programs are effective, quality programs making a difference to small business. If it's not broken, we won't fix it, but if there **is** something that needs to be updated and changed, well, we ought to do so. Most

importantly, though, adequate resources will be needed to get the job done and get it done right.

As I've mentioned, about five years ago, we started the Rural Outreach Program (ROP), with the purpose of providing SBIR outreach assistance to small businesses in states that historically have under-performed in SBIR competition. About 25 states and territories are eligible, Montana included. The FAST Program was also created to provide SBIR and STTR competition assistance to small businesses, however all 50 states are eligible to participate.

It's no secret that I have been very concerned over the funding of these programs in the past. This year is no exception.

The authorization for ROP has been set at $2 million per year since its inception. However, actual ROP appropriations have varied significantly from year-to-year, anywhere from $1.5 million one year to $500,000 the next, and everywhere in between.

This wide variation in funding each year handicaps this program. In order for **any** program to be effective, there needs to be some sort of steady cash flow. It's darn near impossible to survive in a feast and famine environment. Yet, somehow, SBIR Rural Outreach has successfully. Just think of what this program could do if fully funded.

A ROP budget of $500,000 (actual for FY 2002 and proposed for FY 2003) allows only $20,000 per state on average. With funding levels this low, it's difficult to get anything done. If I leave you with anything today, please keep in mind the importance of funding the Rural Outreach program each year. While I commend the SBA for including this program in their FY 2003 budget, I would strongly recommend that future budgets reflect the need for this program and include it at its authorized level of $2 million, instead of the $500,000 included this year. For meaningful results, this program should be funded at its fully authorized amount of $2 million. The same can be said for the FAST program.

Mr. Chairman, we must remember how critical the programs I have talked about today are to the small business community. I am particularly concerned with what I see happening in rural America. It is imperative that this committee and the SBA continue to support programs that reach out to rural areas – the areas where business **is** small business.

This nation is fighting two wars – one on terrorism and another called a lagging economy. America's small business is key in winning the economic war and pulling us out of this slowdown. And SBA's programs help these small businesses do this.

I look forward to working with the SBA and you, Mr. Barreto, in making sure that the SBA continues to provide opportunity and assistance to so many small businessmen and women across this country. Thank you all for your time.

Chairman KERRY. Thank you very much, Senator. Thank you.
Senator Bennett.

OPENING STATEMENT OF ROBERT F. BENNETT, A UNITED STATES SENATOR FROM UTAH

Senator BENNETT. Thank you very much, Mr. Chairman, for your opening statement and concern about small business and the importance of small business as far as the recovery of the economy is concerned.

The interesting thing about the Chairman's position is it has not changed with the change in Administration. The concern about this issue was the same in the Clinton Administration as it is in the Bush Administration, and both Chairman Kerry and Senator Bond have been together on this position regardless of who the president was.

I should just note that some of the banks in Utah are among the largest 7(a) loan lenders in the country. We have a group in Utah that is the second largest 504 loan organization in the country. We, in Utah, do not have the Chase Manhattans and the Citibanks headquartered there, but we have very aggressive lenders who recognize market niche opportunities when they see them and take advantage of the SBA programs not only for people in Utah but, frankly, all over the country. We have Utah banks that use these programs all over the country.

So I have not only a general view of what needs to be done here, I have a very strong parochial interest in seeing to it that we keep these programs as healthy as we possibly can. The question that I raise generally, as a business man, is: What does it cost the Government to keep these things going? Do we not get return on the money that goes out? Does it not get recycled? This is not money that is poured down any particular rat hole somewhere for some program that does not work.

This is money that multiplies and you get the multiplier effect throughout the economy. So that is why I am in support of both of these, and I applaud the Chairman for calling the hearing and proceeding forward today.

Chairman KERRY. Thank you very much, Senator. Thanks for your comments, and I guess it would be appropriate for me to say we all join in thanking your State for a spectacular organizational effort and great, safe last 17 days of the Olympics. It was terrific.

Senator BURNS. They will need more money.

[Laughter.]

Chairman KERRY. From the exodus I saw at the airport, they may need a lot.

Senator BENNETT. If I may say so, it was a Massachusetts citizen that led the charge.

Chairman KERRY. We know that.

Senator BENNETT. You may see him again in your home State.

Chairman KERRY. We hope to, that is fine. We look forward to it.

Senator Wellstone.

OPENING STATEMENT OF PAUL WELLSTONE, A UNITED STATES SENATOR FROM MINNESOTA

Senator WELLSTONE. Thank you, Mr. Chairman.

First of all, I want to indicate my support for Melanie Sabelhaus, who came by the office yesterday. I want to thank the Administrator for being here.

I want to apologize for being kind of in and out. There is a joint Veterans Committee hearing in the House that I need to attend to.

I am going to put my full statement in the record.

Chairman KERRY. Without objection.

Senator WELLSTONE. Ditto to what the Chairman said about the technical assistance, which is something that is very important to me, on the Microloan program. I mean, the two go together. You really need it, and I think the Administrator is nodding his head this way. It is so important.

To me, the one thing I would say, the overall proposal looks good, but I think the 50 percent cut in 7(a) loans is a profound mistake. As the Administrator, and I talked to Ms. Sabelhaus about this yesterday, I hope you will be, in whatever ways make sense to you, outspoken and a strong advocate for this. Especially in hard economic times. Most of the jobs in our State, I would say to the Senator from Utah, are created by small business. We leverage, since 1996, $1 billion in capital through the 7(a) program.

So this, from my point of view, is a non-starter. In fact, I think it just does not make any sense whatsoever, especially in hard economic times. You do not want to be cutting 7(a) loans by 50 percent.

To me, the Administration basically has got three choices this spring. You can fully fund the 7(a) program. You can adjust the subsidy rate, which we have talked about—the Senator from Utah is right—for some time now, so that each Federal dollar is stretched further and the same amount of loans can be made with fewer dollars, which I think makes all the sense in the world given accurate actuarial assumptions. Or you can slash the program in half. That is what you bring to us, and that is a profound mistake.

So we have to turn that around, Mr. Chairman, without doubt. Actually, I think you have got the subsidy problem with 504, as well. But that is sort of a different issue, but a real important one.

Thank you.

[The prepared statement of Senator Wellstone follows:]

STATEMENT OF SENATOR PAUL WELLSTONE
SENATE COMMITTEE ON SMALL BUSINESS HEARING
ADMINISTRATION'S BUDGET REQUEST FOR FY2003
2/27/02

Thank you Mr. Chairman, I will keep my remarks brief, but I do want to register my strong disagreement with the Administration's budget for the SBA. I think it's extremely shortsighted to be cutting significant sources of capital and other assistance to small businesses during a recession. Frankly, it flies in the face of the President's rhetoric about job creation.

I believe SBA's own office of Advocacy recently reported that Small Businesses are the biggest engine of job creation in the U.S. economy – surpassing all other sectors. So why isn't this reflected in the Administration's budget?

I want to talk specifically about the Administration's proposal to slash in half the number of 7(a) loans, but first let me put this in context:

Last year Minnesota businesses borrowed $235 million from private lenders through the 7(a) program. The year before that it was $230 million. Since 1996, the 7(a) program has brought over $1 billion in capital to small businesses in my state. Thousands of Minnesota businesses have used these loans. This is a tremendous amount of capital.

Mr. Administrator, according to your own budget documents, one job is created for every $33,000 in 7(a) loans. That means 7,121 jobs were created last year in Minnesota through these loans, and over 30,000 have been created in the past 5 years.

What this data says to me is that small businesses in Minnesota are hungry for this capital. And it tells me that these loans are a significant source of job creation in my state.

So you'll have to forgive my frustration with this budget. What the administration is proposing – just on the 7(a) program alone I haven't even gotten to the other programs yet – is devastating to the state of Minnesota. It will means at least $118 million less in capital for Minnesota small businesses, it will mean 3,500 fewer jobs created.

Worst of all, is that this cut is proposed in hard economic times for small businesses. Unemployment is rising. Lenders are sharply restricting credit.

The irony is that there's an easy fix to this problem: OMB needs to fix the subsidy rate for this program – currently we are grossly over estimating the rate of default. A more accurate assessment of the risk of default of 7(a) borrowers would allow federal appropriations to go further and fix the shortfall.

The subsidy rate problem applies to the 504 program as well, in fact 504 borrowers and lenders

have been overcharged $396 million in fees because of this problem.

The Administration had three choices this spring: 1. Fully fund the 7(a) program. 2. Adjust the subsidy rate so that each federal dollar is stretched further so that the same amount of loans could be made with fewer dollars, or 3. Slash the program in half.

You chose the to slash the program in half, and I think that's a profound mistake.

With regard to other programs, I don't think the picture looks all that much better. Last year's final SBA budget was a significant cut – not the 40% cut that the administration originally proposed but still a cut – and now this year the Administration has proposed an overall budget that is basically flat funded at last year's inadequate levels.

For example, you proposed a slight increase microloans, but a cut in technical assistance. This level of technical assistance is not sustainable. Microlenders in my state were raising alarms about last years budget so this is just going from bad to worse.

I'd sum up in this way, Mr. Chairman: this is a that budget nickels and dimes Minnesota's small businesses. It's a mistake. It'll be a disaster in my state and I'm going to oppose it.

Chairman KERRY. Senator Wellstone, thank you. Your full statement will be put in the record and I just want to express my appreciation for your personal focus on these lending issues for small business. You have been a terrific part of this Committee's efforts and a great champion of them, and we appreciate it very much.

Mr. Administrator, welcome. Glad to have you back and we look forward to your testimony.

STATEMENT OF THE HONORABLE HECTOR V. BARRETO, JR., ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; ACCOMPANIED BY: DR. LLOYD BLANCHARD, COO, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Mr. BARRETO. Thank you, Mr. Chairman.

I also want to acknowledge Senator Bond and his words and Members of the Committee. Thank you for inviting me here today to discuss the President's Budget request for the SBA for fiscal year 2003.

To paraphrase President Bush, there are no Democratic solutions to small business issues, nor are there Republican solutions, there are only solutions. Year after year the Members of your Committee have recognized this and have consistently reached consensus instead of conflict. America's small businesses are better off today as a result of your working together. I know we can continue this tradition.

It is in that spirit that I respectfully ask for your support of the President's budget request of $798 million for the SBA. The President has increased the SBA's budget to provide capital and technical assistance to small businesses and disaster victims so that the SBA may continue making services available to those who need them the most.

This budget reflects the President's commitment to economic security through its support of small businesses and their creation of new jobs. It supports the President's role of Government, a role which is not to create wealth but is instead to create an environment in which entrepreneurs can thrive.

Before we continue our discussion on fiscal year 2003, please permit me to take this opportunity to commend the many Federal disaster relief workers for their role after the attacks of September 11. In the immediate aftermath of this unprecedented attack on American soil, the SBA mobilized both its disaster and district office employees to open up some 40 temporary disaster assistance offices in New York City and Virginia.

Through the dedication of SBA's employees we have delivered, as of February 25, more than $523 million in disaster loans nationwide, approximately $295 million in disaster loans in New York, $11 million in Virginia, and $217 million elsewhere throughout the country.

I am pleased to say that the SBA was onsite very quickly and, in many cases, canvassed areas door to door south of Canal Street and beyond distributing disaster loan applications to small business owners.

These dedicated men and women of the SBA worked tireless to distribute applications, answer questions, verify damages and proc-

ess and disburse loans, placing the success of the mission above any personal consideration. The SBA family continues to work long hours without seeking recognition for their tremendous efforts.

The SBA also has rolled out an unprecedented nationwide expansion of the Economic Injury Disaster Loans programs to help those small businesses across the country that were adversely affected by the events of September 11.

I am proud to lead an Agency that employs such loyal, dedicated and caring employees. I know you join me in this sentiment and share our commitment to continuing this important work on behalf of the impacted small businessmen and women across our country.

Having said that, I now want to address the 7(a) funding. In fiscal year 2003, for the first time in many years, the SBA and the Office of Management and Budget worked to make the subsidy rate calculation method more accurately reflect changes in the program. While the interim calculation produced a rate that may not be the rate that any of us would like to see, it shows our commitment to move to produce the most accurate method possible.

This is not an empty commitment, as has been made in the past. We actually have a contract with the Office of Federal Housing and Enterprise Oversight, and work has begun on creating an econometric model for the subsidy rate for fiscal year 2004.

In the interim, our calculation for fiscal year 2003, which weights preferred lender loans in proportion to participation in the program, produced a subsidy rate estimate of .88 percent. That is a 20 percent decrease. With the requested appropriation of $85.36 million for fiscal year 2003, this would have resulted in a 9 percent increase in loan volume, producing a record level of loan authority.

However, recently passed legislation subsequently reduced the fees paid by the borrowers and the lenders for a 2-year period beginning fiscal year 2003, resulting in a doubled subsidy rate of 1.76 and a 7(a) program level of $4.85 billion.

While this statutory change poses a significant challenge to the SBA in satisfying increasing loan demand, we believe that other recent legislation will help us meet this demand. The combined budget authority for the 7(a) program in fiscal year 2002 equals a program level of $13.85 billion. Adding this amount to the fiscal year 2003 program level produces a 2-year program level with an annual average of $9.34 billion.

This is consistent with historical levels. While we anticipate an increased program level of $10.5 billion in fiscal year 2002, this would leave an additional $2 billion in guarantee authority to support a nearly $7 billion program level for fiscal year 2003.

The current challenge creates an opportunity to examine the 7(a) program to ensure its continued relevance in the marketplace. One of our concerns is the relationship between the 7(a) program and the 504 certified development company. 7(a) and 504, in some ways, compete with each other. The 504 program, formed specifically for job creation, provides financing for real estate and major fixed assets. We have determined that the 504 program is not reaching its full potential.

For example, over 30 percent of the dollar volume of loans provided under 7(a) are large loans of $750,000 or greater, many of which our 504 program could accommodate. Steering those larger

real estate loans to 504 will assist our goal of reducing the average 7(a) loan size from roughly $244,000 per loan to a more desirable average of around $175,000.

Our aim is to increase the proportion of smaller loans, the type of loans often the most difficult for small businesses to receive. We are looking at ways to encourage lenders to make smaller loans. Doing so will enable us to better provide loans to small businesses, the businesses that represent 99 percent of all employers and 52 percent of the private workforce.

An INC 500 study has shown that a majority of the fastest growing companies started with less than $50,000 in capital. Reducing the average loan size in the 7(a) program will make the SBA an even greater engine in creating jobs and providing for the Nation's economic security. We are confident that our lending partners will work with us to ensure that more businesses which need 7(a) assistance will be able to receive it.

As with 7(a), we have contracted with OFHEO to create an econometric model for the 504 program subsidy rate. We will implement the results in fiscal year 2005, a year later than implementation for the 7(a) subsidy rate to give us time to evaluate the results of using this model on the 7(a) program before using it in additional programs.

As we attempt to implement these and other reforms to our finance programs, we will work closely with you and Congress to ensure that these programs retain their crucial role in assisting small businesses.

In keeping with the President's management goals, we are restructuring the workforce at the SBA. We are investing in the workforce now to produce future savings. This agenda includes more use of telecommuting and contracting out of services, as well as other means to reduce overhead and rent, and use of technology to improve productivity.

Managing for results, working with partners to ensure the effectiveness of programs, is another of the President's management goals and I have taken steps to deal with the management issues raised by the General Accounting Office and the Inspector General.

This budget request includes $1 million for the new Native American Economic Development Program, and initiative to establish partnerships with tribes engaged in economic development activity. The SBA is dedicated to ensuring that all Native Americans who seek to create, develop and expand small businesses have full access to all the necessary business development and expansion tools available through Agency programs. This program is comprehensive in its nature and it is an initiative designed to meet specific cultural needs and result in small business creation.

The SBA will be looking at doing away with the duplication of programs, making our core programs more effective and efficient.

The SBA will celebrate its 50th anniversary in July 2003. In its half century in existence, the SBA has assisted hundreds of thousands of businesses in their formative stages. Many of those companies have names with which you here are all quite familiar, names like Federal Express, Intel, and Nike, just to name three.

We are working hard at the SBA to ensure that the agency retains its leadership position as it looks forward to another half cen-

tury and will continue to provide crucial assistance to the next Federal Express or the next Intel.

As I have taken a close look at our programs and services throughout my first year as Administrator, I have seen what the SBA can do and what the SBA needs to do to keep its programs in tune with the ever changing economy. We cannot do this alone.

I know that I have spoken with some of you individually, but I want to take this opportunity while we are all here together to enroll you in these efforts. We have an opportunity together to look back at successes, to identify weaknesses where they exist, and to position the SBA whereby it can assist in creating an environment in which entrepreneurship can continue to flourish.

As I mentioned at the beginning of my testimony, the SBA's fiscal year 2003 request is a good one for small businesses and offers the beginning point for us to work in tandem with our partners in Congress to ensure that the SBA remains an effective, relevant agency that provides 21st century service for the small business community's needs.

We ask for your support of this budget. I thank you for the opportunity to appear here today, and I will be happy to answer any of your questions.

Chairman KERRY. Thank you, Mr. Administrator.

Senator Levin has joined us. Senator, do you have any opening statement?

OPENING STATEMENT OF THE HONORABLE CARL LEVIN, A UNITED STATES SENATOR FROM MICHIGAN

Senator LEVIN. Thank you very much, Mr. Chairman. I do have an opening statement, which I will make part of the record.

It expresses some disappointment, indeed dismay, at the program level that has been requested for the 7(a) program in the budget request of the Administration. I know that the Chairman and others on this Committee have expressed similar concerns.

The assumptions about default rates continue to be too high, despite the study which the Chairman and Ranking Member requested last fall. The results of that study do not justify the continuation of the excessive assumptions about 7(a) and other SBA loan default rates. I just hope that we will be able to correct them under your leadership, Mr. Chairman.

I will put the rest of my statement in the record.

Chairman KERRY. Without objection the rest of your statement will be placed in the record. Thank you, Senator Levin.

[The prepared statement of Senator Levin follows:]

Statement of Senator Carl Levin
Senate Small Business Committee Hearing
The President's FY 03 Budget Request for the SBA
February 27, 2002

Administrator Barreto, welcome and thank you for the good work the Small Business Administration does on behalf of small businesses around the county.

We all know about the important contributions small businesses make to our economy in terms of job creation and job retention. Small businesses are responsible for creating most of the new jobs in our economy at a time when many of the nation's large corporations are cutting back and laying people off. In the past small businesses helped fuel the longest period of economic expansion that ended last year. Now we look to them to lead the way in pulling us out of recession.

The SBA helps small businesses in many ways. Perhaps the most important is making sure they have access to credit. This is vital because one of the biggest hurdles faced by small business owners is finding the capital to get started, expand, or just stay in business. This is especially true during an economic downturn. I have been a long time supporter, as has this Committee, of SBA's main loan program, the 7(a)guaranteed loan program which last year made $10 billion in loans available to small businesses.

At a time when we have continued to expand the 7(a) loan program in order to meet a growing

demand, I am disappointed that the President's budget proposal cuts the 7(a) loan program in half. Such a gutting of this important small business loan program would have a devastating effect on small businesses across the country. Especially because it comes at a time when credit is tight as our economy struggles to pull out of recession. The federal government should be trying to help small entrepreneurs generate jobs and stay in business, not hinder them by turning a principal source of capital. Lenders have been increasingly cutting back on lending to small businesses and the government should not be penalizing small businesses -- and the overall economy -- by withholding capital at a time when it is needed most.

We should be fighting for the interests of small business. They are the ones that are going to carry us out of recession. Surely the Administration can find the additional $85 million that is needed to bring the 7(a) loan program level with last year's program level and ensure small business is covered. Doing so would mean an additional $5 billion would be pumped into the economy through small businesses around the country for job retention and creation.

I am also interested in SBA's implementation of the SBIR FAST program. The President's budget requests level funding for the program in FY 03. I hope Administrator Barreto will pay special attention to the SBIR program and the FAST program which aims to expand the number of small businesses applying for SBIR R&D contracts. SBIR gives small high technology companies access to federal research and development dollars and, in turn, gives the federal government access to some of the world's best innovation. The mentoring component of the FAST program is a cost effective way to help bring new small business into the SBIR program

through the partnering of successful SBIR small businesses with those that are new to the process.

I understand that FAST awards were made to 30 states last October to perform SBIR and technology outreach and as part of that, many states are developing mentoring networks within their states and regions. I hope SBA will be timely in providing states with SBIR recipient company names as they can set up their mentoring data bases.

Although it is too early to look for results, the program has been well received by the states. At the appropriation time I hope SBA will think about effective ways for states to share best practices and lessons learned. Also, many of the participating states believe this program is a good approach to creating a partnership with the federal government and would like to see it expand to include all the states. This may mean that more money would be needed in the future. I encourage SBA to closely track the implementation and effectiveness of this program.

Mr. Administrator, let me pick up on the 7(a) a little bit, and maybe we can explore this, and also pick up on Senator Bennett's comments.

On page 352 of the President's budget, you say that the 7(a) loan program is "moderately effective". That is your language. You cite that decline defaults have improved performance but lender oversight needs to be improved. A moment ago you described to us that you want to do more smaller loans. It strikes me that if you are going to do more smaller loans, and lender oversight needs to be improved, with the current situation lender oversight needs to even be more improved, but you make no request at all for any increased oversight staff. How do you reconcile those?

Mr. BARRETO. We agree, Senator Kerry. We think that there is an opportunity for us to be more effective than we already have been. That is not to say that we do not think that we have had successes with our 7(a) loan program. We do, and we are very thankful for the history that we have had with that program.

We have lent, in the last 10 years, something in excess of $100 billion.

Chairman KERRY. I understand all of that and I am trying to get at the oversight issue. If you needed lender oversight improvements with the program as it was, and now you are going to do more loans, how are you going to keep up with the oversight without a request of an increase in staff?

Mr. BARRETO. One of the things, as you are well aware, that we are working on right now is our loan monitoring system. We think that that affords us a great opportunity to do this type of lender oversight. Obviously, we are open to any opportunities to do a better job.

One of the things that we have had a lot of is very productive conversation with our lenders on how we can do a better job in sharing information so that we can both serve our customers, which are those small businesses.

Chairman KERRY. Picking up on Senator Bennett's comments, which I completely agree with, I do not understand this definition moderately effective. We have got success stories out of 7(a) that pay the entire budget of your agency. I mean, Intel, Staples, Callaway Golf are not moderate successes.

Mr. BARRETO. Absolutely, I agree with that 100 percent.

Chairman KERRY. Why do you call it moderately effective?

Mr. BARRETO. It is not to infer that we have not had successes, because we have had successes. But our goal is to touch more of those 25 million small businesses, especially in the emerging markets. There is an incredible opportunity for us to touch more communities, to touch more of those small businesses and to identify the next Intel or the next Callaway Golf, which may come from a very different community.

So one of our goals is to expand our reach and to do more. We think that the SBA has done a great job in leveraging our resources, but we think that we can do better.

Chairman KERRY. Well, we agree that we could do more, and that sort of begs the question of why not fund the program to be able to do more? I mean, by SBA's numbers alone, 7(a) loans created 7,000 jobs in my State last year. In Georgia it created 11,273

jobs; in Minnesota, 7,400; and across the nation almost 300,000 jobs.

But when you figure the cost of the lending program, you do not even figure in any of those 300,000 jobs. You do not figure in the taxes those people are paying. You do not figure in any of the cost—I mean, this is a plus-plus, net plus program.

So to pick up on what Senator Bennett said, what is the rationale, in a time of economic distress, when we need stimulus, when the Administration was prepared to spend almost $100 billion of stimulus, why cannot we find less than 1⁄10th of $1 billion to make this program more broadly reached?

Mr. BARRETO. Thank you, Senator Kerry. As I mentioned in my testimony, the original request is—well, the request is for $85.36 million for our 7(a) loan program. This is actually an increase on what was requested last year. With the decrease in our subsidy rate, that would have provided a $9.7 billion authority for loans.

The issue that we are challenged with is because of P.L. 107–100, that has caused the subsidy rate to go up and has decreased the loan authority that we currently have. But the intention was never to decrease the loan authority. Obviously, we did not anticipate the effect that that legislation, that passed at the end of the year, would have had on the original request.

So the intention has always been to maximize what we could do with that program. It has just been that the fact that the subsidy rate change due to that legislation has caused that program authority to go down.

However, having said that, I really want to make sure that I explain that we believe that there are options. Some of the options were described today of some of the things that we can do. We are going to be at right around a $4.85 billion authority, but we believe that we are going to have at least $2 billion rollover from the program this year into next year. That is going to get us pretty close to $7 billion.

We also think that we could experience an additional $2 billion authority in our 504 program, which is going to get us close to $9 billion.

As we talked about, or as I mentioned before, when you pull out those larger loans, we have been averaging somewhere around that $9 billion level. So we think that we do have some options.

Chairman KERRY. To get to your $9 billion is a little bit cute, if you do not mind my saying so. Because you are including the emergency $75 million that I put into the defense appropriations last year, which is the STAR program, which was specifically put there to increase lending this year in the aftermath of the terrorist attacks, not to be included by you today as somehow meeting your mark.

So what you are doing is taking 2 years and trying to claim that it makes you good for the 1 year. It really does not deal with the shortfall for FY 2003. What are you doing, at this point, to market and use the STAR program that we put into the defense appropriations? It is not supposed to be included into this count for next year.

Mr. BARRETO. I understand that, Senator.

Chairman KERRY. No you do not, because you are using it to say what a good job we are doing.

Mr. BARRETO. I am saying that is one of the options that we might have at our disposal.

Chairman KERRY. Let me just say to you right now, it is not an option. OK? Let us take it off the table. It was not put there for that purpose. It was put there because we could not get what 63, now 64, U.S. Senators have cosponsored, which is the emergency bill for business. We are meeting with Andy Card, as you know I think, in a day or so to try to deal with that.

But do not start grabbing that money, which you guys did not even put in the budget, and say we are doing a great job. We put it there in order to be spent now, not extended over this period of time to compensate for finding cuts in FY 2003.

Mr. BARRETO. We believe that with the legislation that was passed, it gets us to about $13.88 billion for this year. We believe that we are only going to do about $10.58 billion. So there will be an excess there.

But having said that, I agree that we need to do a better job of marketing the STAR program. That is a newer opportunity, and one of the things that we are doing is we are talking to our lending partners. We have a meeting coming up where we are bringing in our top 10 lending partners in the near future to talk to them about these kinds of opportunities. Because we think that there is a significant opportunity for small business through the STAR program.

Chairman KERRY. Well, we need to work with you. You are going to keep coming back to those figures. I think we need to really sit down and hopefully we can have that discussion with Mr. Daniels and with the Administration. It sounds like you are sort of trapped in the place they have put you and we cannot get you out of there today.

But I think the Committee is just unanimous in its feeling that this is a plus-plus program. This is not, as Senator Bennett said, something where we are wasting money. The default rates just do not support that notion. The success stories have many times over paid for the entire expenditure.

So it is my hope that, particularly at this moment in time, when so many small businesses just need a tie over. I mean, you have got all of the travel industry that has been hit so badly across the country. The airplanes are still working below capacity, which means that every other industry incidental to them, and there are countless numbers of them across the country, whether it is a restaurant or—I mean, just the dry cleaners that used to be supported by the hotels, the people who do the laundry, the napkins for the restaurants.

There is so much spin off here. The people who cook the bread for the restaurants. You run down the list. The people who come into town and have to go to the local drugstore.

There are a lot of people who have a viable business, who are in a viable location, who have had years of good business track record, but for whom the next months may be difficult. That is the purpose of the SBA and of these programs to help small businesses.

To be holding back on it is incomprehensible to me, in the context of what makes this country tick. I mean, more than 50 percent of the jobs in this Nation are in the 99 percent of the businesses of this Nation that are small business. You have a unanimous Committee here, you have got a super majority of the U.S. Senate that wants to put this additional effort into it, and the only resistance we can see is the Administration. I am not saying you personally, but the Administration. It does not make sense.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I agree that Administration witnesses come here with their instructions from the OMB. I have been an Administration witness at one point in my life and I understand that you do what you are told.

But let me just try to understand the issue on P.L. 107–100. If I understand your testimony correctly, Mr. Administrator, you are saying, "We really would like to do what you want to do, but P.L. 107–100 says we cannot." Is that a fair summary?

Mr. BARRETO. What we have stated and what we believe has happened is when P.L. 107–100 passed, or S. 1196, it reduced the fees by the borrowers and lenders for a 2-year period, beginning in October 2002, causing the recently reduced subsidy rate to double to 1.76. So that is one of the things that is causing the issue of reduced authority for us to lend.

Senator BENNETT. Yes, I understand what it did, but let me go back to my statement and see if I have got it straight. As I hear the conversation, you are saying, "We would like to do what the Committee wants us to do, but because of P.L. 107–100, we cannot." Is that a fair statement or am I incorrectly attributing motives here?

Mr. BARRETO. I would just characterize it a little bit differently, Senator. What I am saying is that our full intention was to do a program level of about $9.7 billion. When the budget was submitted and when it was developed, it did not anticipate that there would have been this legislation.

That is what we are dealing with today. We are trying to find methods that we can deal with it. We think that there are some opportunities, especially if we focus on some smaller loans. As I mentioned in my testimony, we think that our average loan size is too large, especially for those small businesses that we are trying to help.

Senator BENNETT. I am with you. I understand those details, but I want to get back to the fundamental question the Chairman is raising, the Committee is raising. This is where we would like to be. Are you saying you would like to be there, too, but cannot because of this legislation? Or are you saying no, we would not like to be there and this legislation further complicates things?

I just want a value judgment as to where we are here.

Mr. BARRETO. Obviously what is driving this is the fact that we are dealing with a larger subsidy rate. The subsidy rate is the issue here and I think that we have talked about this. I know that this Committee has dealt with this issue for many, many years.

Since we got on board last year this is an area that we focused on, too, and I think that we are making progress on it. I think we

were able to make some progress by reducing it from that 1.07 level down to .88. But the job is not done. We have got to continue working together to make sure that we continue having an accurate reflection of that subsidy rate.

One of the things that we are doing this year, Senator, is we are outsourcing a study to develop a more accurate econometric model. We think that is going to help us.

Senator BENNETT. I applaud that because I think a more accurate model will get you closer to where the Committee wants to be. But if it is true, as the implication is from the conversation, that the only difference between us is how we work out the problems of this Public Law, and that the Administration and the Committee want to be in the same place, that changes the dialogue of what we talk about.

Chairman KERRY. Would the Senator yield?

Senator BENNETT. Yes.

Chairman KERRY. He does not need any help, but I just want to point something out. The subsidy was changed because people were being overcharged $1 billion. In bipartisan House and Senate action, we lowered that fee. That is why the subsidy is higher; because we lowered the fee.

You, in fact, in your budget, effectively blame us as you say—I mean, you are not saying it the same way today, but the bottom line is you are saying you guys passed this law to lower the fee. Yes, we did, because people were being overcharged and we did not think they should pay that high a fee.

So your response is appropriately to raise the amount of money you put in to make up the difference. You decided that you did not want to do that.

So to come back to what Senator Bennett is saying, it is a question of whether you want to do it or whether you want to say that somehow there is a law that prevents you from doing it. It does not prevent you; you just have to put a little more money in there, which is what we intended.

Senator BENNETT. I never met a tax cut I did not like and this, in effect, was a tax cut. This Administration should be happy about tax cuts. This Administration is asking for tax cuts.

I just want to understand if, in fact, by virtue of the tax cut, reduction of fee, call it what you will, we have created a problem for you that you wish would go away because you want to put as much money into the program as we want to put, let us work on solving that problem because it seems to me that problem is fairly easy to solve.

But if in fact you say no, we think the amount of money is adequate regardless of the fee, then that becomes a different question between the two of us.

I am not trying to trap you. I am just trying to understand exactly where the Administration is vis-à-vis the Committee's position on the issue of how big the program ought to be. Assuming that the 7(a) program fees was not a problem, would you want the program to be as big as the Committee wants it to be?

Mr. BARRETO. Absolutely.

Senator BENNETT. OK, the I think we have got the basis for a dialogue here of how we can maybe work this thing out.

Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much, Senator.

Given that answer, Mr. Barreto, are you willing to go to OMB and send up a budget amendment to increase the funding on 7(a)?

Mr. BARRETO. Well, we are willing to work with you on any solutions that can help more small businesses.

Chairman KERRY. That is the solution.

Mr. BARRETO. I think there are a variety of things that we could explore. We still think that we are going to get closer to where we need to be, in terms of that lending authority. As I mentioned, it has been averaging at about that $9 billion to $10 billion level for a couple of years now. We believe that we can get there.

The issue, as I also mentioned, is that we really want to look at—this is an opportunity we see to look at the 7(a) program and look at it in a real comprehensive way and make sure that we are doing the job for small businesses and not just doing business for some small businesses, especially some of the businesses that are maybe not so small and are getting some pretty large loans out of the 7(a) program.

Chairman KERRY. Mr. Administrator, I want to recognize Senator Snowe here, but let me just say to you that I have been around here 18 years now, which is not a long time compared to some, but it is long enough to know that there is a difference between counting a several year appropriation and doing carryover and saying you are going to get to a level and doing the level on the basis of 1 year.

Unless the Administration is prepared to allocate a larger sum of money on the 1 year, and you are prepared to go out and market this thing in a way that effectively reaches the people who need it, we are going to be at odds. I hope we are not going to be.

This is a bipartisan Committee, and you have learned that. We do everything we do in a really bipartisan way. There is just not enough time on the floor not to do that. There is not enough ability in the Senate not to do that.

I think the Committee is really unified in believing that this just does not have a party label. It is a question of what is good for small business.

Now if you guys have a real difference, ideological or philosophical or political that it does not make a difference to small business, tell us that. But let us not do a dance around the numbers that does not get to the problem here. The problem is there is not enough money allocated to the 7(a) program to do what many of us think it ought to do. Saying you are going to get to the authorization by playing accounting games, by sort of doing Arthur Andersen standards here or something, is not going to help us. I do not want to do that.

Mr. BARRETO. I do not either.

Chairman KERRY. That is not fair to Arthur Andersen. I take that back. But it is just not appropriate. It really is not appropriate.

Senator Snowe.

Senator SNOWE. Thank you, Mr. Chairman and welcome, Mr. Administrator.

I appreciate the comments that have been made on the 7(a) program but I certainly, too, want to weigh in on this issue because clearly the timing poses some serious ramifications. Here we are in the midst of a declining economy and, as you acknowledge, small businesses really have been the engine that is driving job growth in our economy. It truly has been, even in the last economic recoveries. I mean, small business plays a pivotal role.

So I see this as being an inhibitor. When you are talking about a reduction of more than 50 percent in the program, I just do not see how it cannot have an impact on small businesses and those who depend on this type of program. Would you not agree?

Mr. BARRETO. Absolutely. As I mentioned before, our intention was not to decrease the size of the program. That was never, ever the intention. We are still committed to providing the same level of funding.

I could not agree with you more, Senator. Seventy-five percent of the new jobs is what we think are coming out of the small businesses, so it is too important to our economy.

On the good front, I would think that one of the things that we have been able to do is a lot of outreach recently. We are seeing that our loan activity is up 11 percent over a similar period. So there is a tremendous amount of interest and we need to continue that and work very closely with you to make sure that we are reaching as many of those small businesses as we can.

Senator SNOWE. You know, it is interesting you note that it may reach more businesses with these kinds of changes, but you really do not know. Am I correct in saying that? I mean, you are going to study the results of this program over the next 2 years. So there is no way to know what the impact is going to be until you achieve the results.

Mr. BARRETO. Right.

Senator SNOWE. So if there is a problem with what you are proposing, we will not really know for the next 2 years and we are going to obviously feel the negative effects if it is not working.

I would question whether or not you would reach more businesses as a result of what you are proposing as opposed to, I would think, fewer businesses.

Mr. BARRETO. Well, one of the ways that we think that we can reach more of those businesses is if we have an opportunity to pull out those large real estate, large equipment loans that are currently being done in the 7(a) program. If we have an opportunity to shift some of those over to our 504 program, where we have never totally maximized the loan authority that we have there, we think that that is going to free up some money for us to do more loans.

If we can focus in on some of those smaller loans. As I mentioned in my opening testimony, Inc Magazine did a study recently that says that the majority of successful startups are capitalized with less than $50,000. Our average loan size right now is $225,000.

So I think that we have an opportunity to focus in on some of those smaller businesses who need that access to capital.

Senator SNOWE. I think you have the cart before the horse because you really do not know what the effect will be. And it is a see change for the program. This is a sizeable reduction.

As Senator Kerry indicated, the point in reducing the fees for the program was because it was a high fee. That can be an inhibiting factor, in making the program as effective as possible. So you have to create, as you well know, a balance in order to make an incentive for people to participate in the program. So that is why we reduced the fees, because we felt that they were excessive.

So I question the timing, and also waiting 2 years to determine whether or not this is an effective approach and one that we should adopt. Not to mention the fact I do think it is going to undercut the overall program.

Mr. BARRETO. Again, we will not wait 2 years to determine how we are doing with regards to our ability to reach small businesses. Obviously, we will be communicating back regularly, as we normally do, as to where we are at on our program.

As I told you, there is a tremendous amount of interest right now in the SBA. Our programs are running at 11 percent. It is hard to believe but we are getting 15 million hits a week right now on our website, 1.5 million visitors come into our website every day. A lot of those people that are visiting our website are interested in how to start a business.

So we have a tremendous amount of interest and a huge responsibility to make sure that we are doing everything that we can to serve as many of those 25 million small businesses. We stay committed to that mission.

Senator SNOWE. Regarding outreach, can you describe to me exactly how you intend to develop outreach efforts to private sector partners, for example? That is important, especially in a rural State like Maine.

Also, with respect to the Women's Business Centers, because that is also important to both of us, the Chairman and myself.

Mr. BARRETO. Absolutely. The SBA, I think, has done an incredible job over its history of really leveraging the resources that we have. We are not one of the largest agencies in Government, but I think we do a very effective job by leveraging those public/private partnerships.

One of our most successful public/private partnerships is the relationship we have with Small Business Development Centers. We have 1,000 Small Business Development Centers in the country and it is a great distribution source for us to get our information out and help small businesses. Last year I think we helped something on the order of 660,000 small businesses through SBDCs.

An additional 400,000 we did through SCORE, our Service Corps of Retired Executives. Of course, one of the most successful partnerships we have is with our banking partners. So we have a lot of networks out there where we reach out, not even speaking about all the relationships we have with business organizations in every single community, and on top of that our wide distribution force that we have with our 70 program offices across the country. We have a presence in every single State in the country.

So I think that we have some of the tools that we need to be able to go out and reach as many of those small businesses, especially in the rural areas. That is another area that we are very focused on.

You know, on the women's business issue, we are very proud of the work that we have done. We have 80 Women's Business Centers. We have five that are coming online right now.

All of our programs are available to women. In fact, in the SBDCs, we calculate that 40 percent of the businesses that are being served are women business owners and women business owners right now represent something a little over the order of 30 percent. So we are actually helping more women through our SBDCs than are represented in the population on a relative basis.

But we think that there are significant opportunities to use those networks to reach even more of those businesses.

Senator SNOWE. Will you be developing specific initiatives to reach out to businesses, obviously the private sector, mayors, local officials?

Mr. BARRETO. Absolutely. We have an Office of Inter-Governmental Affairs that is always working with the legislators, with the mayors. They have been very active in all of the conferences that have been going on, the mayors' conference, the governors' conference. We will continue to do that and reach out to them.

Because at the end of the day, we think that is one of the most effective ways that we are going to be able to accomplish our mission. I mean, nobody can do it better than the people that are on the ground that do this every single day.

We are not going to impact a tremendous amount of small businesses from back here in Washington, D.C. That has to be done on the local level. So we are very committed to developing those kinds of initiatives. Our Office of Inter-Governmental Affairs is already working on some of those plans.

Senator SNOWE. I appreciate that. Thank you, very much.

Mr. BARRETO. Thank you, Senator.

Senator SNOWE. Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much. I might add, Mr. Administrator, that your answers to Senator Snowe are a wonderful argument for why the program ought to be increased. I mean, if you are getting 15 million hits a week and 1.5 million visits a day, and you are up 11 percent, you ought to respond to it.

Mr. BARRETO. We are working very hard to take advantage of every opportunity.

Chairman KERRY. How about this: Would you commit to the Committee that you will go ask the OMB for an amendment on the budget?

Mr. BARRETO. Obviously, it depends on what the amendment is and what the details are. We will work——

Chairman KERRY. To not have a 50 percent cut, to fully fund 7(a). That is the simple request of the Committee. Do you think it is worth doing?

Mr. BARRETO. I think that that is what the President do, fully fund the SBA 7(a) program through the request. We know that all things being equal we would have experienced a $9.7 billion level there.

Chairman KERRY. Do you disagree that there is a 50-percent cut in the——

Mr. BARRETO. The only disagreement, Senator Kerry, is that it was not the intention of the President or Administration to cut——

Chairman KERRY. It may not have been the intention, but that is the effect. Do you agree that that is the effect?

Mr. BARRETO. No, I agree that it was the effect——

Chairman KERRY. Then we would ask the Administrator to make up that difference.

Mr. BARRETO. I would be glad to work with you on any ideas or suggestions that you have for helping more small businesses.

Chairman KERRY. That is my idea, yes or no?

Mr. BARRETO. The answer to the question, Senator, is I would love to work with you on what that might look like. Without knowing what the specific nature of it would be, I think it would be difficult to make a firm commitment. But my commitment is always to work with you and this Committee to find ways that we can do things better and help more small businesses.

Chairman KERRY. All right, I am not going to belabor it, Mr. Administrator, but I think you—the request is pretty straightforward, the amount of money is pretty clear. I guess Senator Bond and I and the Committee will try very hard to get an appropriate response out of it.

As you know, I wrote you a letter requesting an outline of your sense of what the relationship of the Deputy Administrator to the Administrator is. In a recent letter to you, I informed you that the reason Congress made it a confirmable position is effectively because we wanted someone to be there who is going to be responsible for the day-to-day management of the agency itself when the administrator was unavailable.

But you sort of had indicated somewhere that you thought that you are going to divide up the country and both of you were going to be out there doing your thing. The question was who is going to be running the agency?

So that was really what was asked in my letter, is who runs the agency if you and the deputy are unavailable and/or what is the relationship going to be here?

Mr. BARRETO. Thank you very much, Senator, and I appreciate the question very much. I am very happy and excited that we are going to have a Deputy Administrator on board, hopefully very, very soon.

Melanie Sabelhaus is going to be a great contributor to the SBA. She is somebody that has tremendous experience, not only corporate experience working for large companies like IBM for many, many years. She has a great organizational sense, a lot of management experience. But she is also one of those small business owners, just the way that I was, that started off with an idea, a commitment, built something out of nothing. Built a small business and grew it and was very, very successful with it. So I am very excited about having her on board.

I could not agree with you more. I see it as a true partnership. I do not believe that there will be a lot of times when we both will be out of Washington, D.C. So when I am not there, when I am out representing the SBA in my travels, Melanie will be there and she will be running the Agency as an equal partner to me when I am not there.

I think that there is a lot of opportunity for us. Never did I want to communicate the intention that we are both going to be traveling the country and nobody is going to be home minding the shop.

The truth of the matter is that no matter where we are at, we are always in contact with the office and we are always running things, whether we are there or not. But you are right, there is no substitution of having that presence there. I know that when I am not there, Melanie will be there and we will work very closely together.

But I want Melanie involved in all aspects of the agency. She is not a specialist in terms of this is the only thing that she is going to do. I need help with everything that we do.

You have indicated, and this Committee has indicated, we have a big job ahead of us. We have a lot of work to do. So we are happy to get the help and we are excited about having her on board.

Chairman KERRY. What are you doing at this point, in terms of increasing resources and updating the 8(a) program to make sure that there is increased opportunity and accessibility in that?

Mr. BARRETO. Absolutely. The 8(a) program is a program that is very important to me. Not just because it is the 8(a) program, but because I understand how important it is for small businesses to get contracts. When you go out and talk to small businesses, sometimes they will tell you if I could only have one thing, just get me more business. I will take care of everything else myself. The 8(a) program is a great way to get more business into the hands of small business people, especially from emerging markets.

We have a new administrator for government contracting and business development, another small business owner, who is looking at those programs and really looking at it from two fronts. One is how can we make the existing program more successful? We are not satisfied that we have enough businesses that participate in 8(a). We are also not satisfied that enough of them are getting business out of the program. So we need to look at ways that we can grow the pie of opportunity for them. That is the only way we are going to be satisfied.

But the other thing that we are looking at is what should the 8(a) program of the future look like? Just because we have done something a certain way for years and years does not mean that we cannot find better ways to do it. Simplify the access of people coming on board. Simplify the way that we ask people to provide us information. Facilitate more opportunities through events and other linkages with the people who make the buying decisions.

Also look outside the box. Maybe there are opportunities to look at in the private sector. Most of us have private sector experience and we know that there is a tremendous amount of business that can come out of large Fortune 500 companies. The interesting thing is that they are more interested now than ever before to do this kind of business.

A very specific example is that we put together a director of 8(a) providers to address the needs in the New York area. We know that small business has to be the answer for rebuilding New York and rebuilding this country. So we put together a directory to introduce our 8(a) contractors to the folks that are going to be buying services in the New York City area.

So we are doing a whole host of things. That is a very important program for us and we will stay committed to building that up and will be glad to provide you with any specific details on the plans that we have. But we have a very ambitious plan.

Chairman KERRY. Well good, because last year the small business procurement goals were really not met, particularly in the area of minority contracting. We have to understand that those goals are not a maximum that we hope to achieve. They are a minimum that we hope to achieve. We did not do as well as I think many of us would have hoped last year. So I think we are particularly concerned about that.

The SDB and negotiated 8(a) goals are really critical and we want to make sure that those are exceeded if possible.

I would just call to your attention, I have a letter in to you and look forward to a response on the application and certification process for the 8(a) and the SDB programs. There is an inequality between—you know, the HUBZone has a much easier certification. It has an online option, whereas you get this antiquated process for 8(a) and SDB. I think it would be terrific if we could get—you know, we want equality in these programs, parity. Parity is not just in the allocation. Parity is in accessibility, execution and all of that. I think it would be really good if we could try to upgrade that.

Mr. BARRETO. Absolutely Senator. I would be happy to receive your letter and we will definitely get a comprehensive response on that.

I would just touch on one point, one of the things that our ADA for Government Contracting is doing, he has a project right now to automate the application so that it can be an online application. They have made pretty significant process on this. This can save a tremendous amount of time and cost to small business people.

I have had many small businesspeople tell me once I saw the phone book that you wanted me to return to you, I quit before I even started. That is not what we want to do. We want to incentivize people to participate and we think that might be a good way to do it.

Chairman KERRY. Good. We look forward to working with you on that.

I am going to leave the record open with respect to any questions my colleagues may have that we will need to submit in writing to you for about a week.

Without objection, the remarks of Senator Cantwell will be placed in the record as if read in full.

[The prepared statement of Senator Cantwell follows:]

Remarks of the Honorable Maria Cantwell
Hearing on the President's Budget Request for the SBA
February 27, 2002

Mr. Chairman, I would like first to thank you for holding this hearing, and I would like to thank the witnesses for coming here to discuss President's Budget proposal for the Small Business Administration. Let me also take a moment to welcome Melanie Sabelhous, the Administration's nominee to be the Deputy Administrator for the Small Business Administration. I look forward to hearing from you today.

I want to note that I am very concerned about the President's proposed level of funding for several important SBA programs: the Women's Business Centers, Small Business Development Centers, Microloans and PRIME. Especially troubling is the proposed reduction in funding for 7(a) guaranteed loans, and the continued unacceptably high subsidy rate for this program.

Small businesses are the backbone of this nation, and one of the keys to both national and individual economic recovery, because they provide new jobs during periods of corporate lay offs and economic downturns, and

allow workers to continue to provide a livelihood for their families through meaningful work. In fact, last year, according to SBA's own Office of Advocacy, virtually ALL new jobs were created by small businesses.

As we will undoubtedly hear today, women and minorities are the fastest growing segment of the small business community. Yet, in tough economic times, those same groups are least likely to qualify for and receive small business loans from traditional sources. Since September 11, small businesses have had an especially tough time making ends meet, and banks are making it tougher, and more expensive, to get loans. Thus, the reduction of funding for 7(a) guaranteed loans from $10 billion to $4.85 billion does not make sense during this time of greater economic need. Small business loans guaranteed by SBA enable self-sufficiency...it is no time to cut this funding.

Secondly, the subsidy rates for these loans are too high. They are based on especially pessimistic default assumptions that have not borne out in several years. This over-estimation results in overcharging participants and reduction in the number of loan guarantees. The President's budget says that in FY2002, the 7(a) program will return $179 million to the Treasury,

and the 504 program will return $110 million. This is unacceptable. Reasonable fees are essential to ensure that there is access to affordable capital.

Mr. Chairman, thank you again for holding this hearing, I look forward to hearing from all of our witnesses.

Chairman KERRY. What I have to do is go vote quickly. We will recess momentarily. We will begin with the second panel and then Melanie Sabelhaus as soon as we get back. We will try to expedite that if we can. I thank you very much, Mr. Administrator.

Mr. BARRETO. Thank you very much, Senator.

Chairman KERRY. I would invite you to stay if you want to.

Mr. BARRETO. I will.

[Recess.]

[The prepared statement of Mr. Barreto follows:]

STATEMENT OF HECTOR BARRETO
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION

SBA'S FISCAL YEAR 2003 BUDGET REQUEST

FEBRUARY 27, 2001

Mr. Chairman, Senator Bond, 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) 2003. To paraphrase President Bush, there are no Democratic solutions to small business issues, nor are there Republican solutions. There are only *solutions*. Year after year, the Members of the Senate Committee on Small Business and Entrepreneurship have recognized this and have consistently reached consensus instead of conflict. America's small businesses are better off today as a result of your working together.

I know we can continue that tradition. It is in this spirit that I respectfully ask for your support of the President's Budget Request of $798 million for the SBA. The President has increased our budget to provide more than $17 billion in capital and technical assistance to small businesses and disaster victims so that the SBA may continue making services available to those of our Nation's 25 million small businesses which need them most. This budget reflects the President's commitment to economic security through its support of small businesses and their creation of new jobs.

Before we continue our discussion on FY 2003, please permit me to take this opportunity to commend the many federal disaster relief workers for their role after the attacks of September 11. In the immediate aftermath of this unprecedented attack on American soil, the SBA mobilized both its disaster and district office employees, including its resource partners, to open some 40 temporary disaster assistance offices in New York City and Virginia.

Through the dedication of SBA employees, we have delivered as of February 25 more than $523 million in disaster loans nationwide – $295 million in disaster loans in New York, $11 million in Virginia and $217 million elsewhere. I am pleased to say that the SBA was on-site very quickly after the attacks and in many cases canvassed areas door-to-door south of Canal Street and beyond, distributing disaster loan applications to small business owners. These dedicated men and women of the SBA have worked tirelessly to distribute applications, answer questions, verify damages, and process and disburse loans. Placing the success of the mission above any personal consideration, the SBA family continues to work long hours without seeking recognition for their tremendous efforts. The SBA also rolled out an unprecedented nationwide expansion of the Economic Injury Disaster Loans (EIDL) Program to help those small businesses across the country adversely affected by the events of September 11. I am proud to lead an Agency that employs such loyal, dedicated and caring employees. I know that you join me in this sentiment and share our commitment to continuing this important work on behalf of impacted small businessmen and women across the country.

Disaster assistance, however, is but one of many ways through which the SBA reaches its customers. The 2003 budget includes specific requests for the following programs, a few of which I will highlight in greater detail later in my testimony:

- $4.85 billion in program level, through an appropriation of $85.360 million, for the 7(a) Loan Guaranty Program;
- $4.5 billion in program level, without taxpayer subsidy, for the 504 Certified Development Company Program;
- $7 billion in program level, without taxpayer subsidy, for the Small Business Investment Company (SBIC) Program;
- $1.67 billion in program level, without taxpayer subsidy, for the Surety Bond Guarantee Program;
- $26.6 million in program level, through an appropriation of $3.726 million, for the Microloan Direct Program.
- $17.5 million for Microloan technical assistance;
- $795 million for disaster relief;
- $1.1 million for Advocacy Database and Analysis;
- $500,000 for Ombudsman and Regulatory Fairness Boards;
- $750,000 for Veteran's Outreach;
- $1.5 million for initial preparation for a National Conference on Small Business;
- $3.6 million for 7(j) technical assistance;
- $500,000 for the Pro-Net Small Business Database;
- $500,000 for Small Business Innovation Research (SBIR) Program technical assistance;
- $3 million for the Federal and State Technology (FAST) Program;
- $2 million for the HUBZone program;
- $88 million for Small Business Development Centers (SBDC) grants;
- $3 million for the Paul D. Coverdell Drug-Free Workplace Program;

- $5 million for the Service Corps of Retired Executives (SCORE);
- $475,000 for Business Information Centers (BICs);
- $12 million for Women's Business Centers (WBCs);
- $750,000 for the Women's Council;
- $1 million for Native American outreach; and
- $3.1 million for United States Export Assistance Centers (USEACs).

Our budget request will allow us to continue meeting demand for the 7(a) Loan Guaranty Program, the flagship program of the SBA, through FY 2003, and we are working on ways to improve the program to ensure we can meet demand in future years. Let me further elaborate.

In FY 2003, for the first time in many years, the SBA and the Office of Management and Budget (OMB) worked to make the subsidy rate calculation method more accurately reflect changes in the program. In furtherance of that goal, we have contracted with the Office of Federal Housing Enterprise Oversight (OFHEO) to create an econometric model for the subsidy rate for FY 2004. In the interim, our calculation for FY 2003, which weights Preferred Lender loans in proportion to participation in the program, produced a subsidy rate estimate of .88 percent – a 20 percent decrease. With the requested appropriation of $85.36 million for FY 2003, this would have resulted in a 9 percent increase in loan volume, producing a record level of loan authority. However, P.L. 107-100 subsequently reduced the fees paid by borrowers and lenders for a two-year period beginning in FY 2003, resulting in a doubled subsidy rate of 1.76 percent and a 7(a) program level of $4.85 billion.

While this statutory change poses a significant challenge to the SBA in satisfying increasing loan demand, we believe that other recent legislation will help us meet this demand. The combined budget authority for the 7(a) program in FY 2002 is $175 million. This figure includes the SBA's annual appropriation of $78 million, the supplemental appropriation of $75 million, and carryover from FY 2001 of $22 million. While the supplemental 7(a) program is executed at an different subsidy rate than the regular program (1.67 percent versus 1.07 percent, respectively), the total 7(a) loan guaranty authority for FY 2002 comes to $13.84 billion. Adding this amount to the FY 2003 program level of $4.85 billion produces a two-year program level of $18.69 billion, or an annual average of $9.34 billion, which is consistent with historical levels. In FY 2003, we anticipate converting approximately $3.3 billion in guaranty authority from FY 2002 into $2 billion in guaranty authority under the subsidy rate created by P.L. 107-100. This would support a nearly $7 billion program level in FY 2003.

The current challenge creates an opportunity to examine the 7(a) program to ensure its continued relevance in the current marketplace for both lenders and borrowers. One of our concerns is the relationship between the 7(a) program and the 504 Certified Development Company. 7(a) and 504 in some ways compete with each other instead of complementing one

another. The 504 program, formed specifically for job creation, provides financing for real estate and major fixed assets. We have determined that the 504 program is not reaching its full potential. For example, over 40 percent of loans provided under 7(a) are large real estate loans, many of which 504 could easily accommodate.

Steering those larger real estate loans to 504 will assist our goal of reducing the average 7(a) loan size from roughly $244,000 per loan to a more desirable average of around $175,000. Our aim is to increase the proportion of smaller loans, the type of loans often the most difficult for small businesses to receive. We are looking at ways to encourage lenders to make smaller loans.

Doing so will enable us to better provide loans to small businesses – the businesses that represent 99 percent of all employers and 52 percent of the private workforce. An *Inc* 500 study has shown that a majority of the fastest growing companies started with less than $50,000 in capital. Reducing the average loan size in the 7(a) program will make the SBA an even greater engine in creating jobs and providing for the nation's economic security. We are confident that our lending partners will work with us to ensure that more businesses which need 7(a) assistance will be able to receive it.

As I said before, the 504 program provides financing for major fixed assets. Its statutory purposes are to foster economic development and to create or preserve job opportunities by providing long-term financing for small business concerns. The program will provide up to $4.5 billion in lending in FY 2003, up from a lending volume of $2.3 billion in FY 2001. This renewed emphasis on 504 allows the SBA to support a significantly higher number of the larger loans critical to the success of small businesses needing financing for real estate and long-term capital equipment purchases. This program has not required a subsidy from taxpayers since FY 1996, as an on-going fee paid by small business borrowers fully funds it. We propose to slightly adjust this fee in FY 2003 from .410% to .425% to allow the program to continue without taxpayer subsidy.

As with 7(a), we have contracted with OFHEO to create an econometric model for the 504 program's subsidy rate. We will implement the results in FY 2005, a year later than implementation for the 7(a) subsidy rate, to give us time to evaluate the results of using this model on the 7(a) program before using it in additional programs.

As we attempt to implement these and other reforms to our finance programs, we will work closely with you in Congress to ensure that these programs retain their crucial role in assisting small businesses.

In keeping with the President's management goals, we are restructuring the workforce at the SBA. We are investing in the workforce now to produce future savings. This agenda includes increasing telecommuting, consolidating servicing contracts to reduce overhead and rent and improving productivity through the use of technology.

Managing for results – working with partners to ensure the effectiveness of programs – is another of the President's management goals. I have taken steps to deal with the management

issues raised by the General Accounting Office and the Inspector General. We have also addresses the President's E-Government initiative to create a government that is more citizen-centered. The budget request includes $5 million for SBA's leadership role in the Federal Government's interagency effort to build a website that reduces the burden of wading through laws and regulations. Small business owners have a labyrinth of laws and regulations to negotiate on the Federal, state and local levels and no guide to assist them in determining which are applicable. This Business Compliance One-Stop on the Internet will build upon BusinessLaw.gov, which the SBA has already implemented, and will provide those small business owners simpler, 24/7 access to the vital information they need to run their businesses.

Additionally, in order to ensure security of its computer systems and to provide small businesses the access described above, the budget request includes $2.8 million to support SBA's upgrade of its information technology infrastructure. The SBA will also begin implementation of an e-documents management system to assist with the retention and administration of the SBA's electronic records. The budget request includes $750,000 for that purpose.

This budget request includes $1 million for the new Native American Economic Development Program, an initiative to establish partnerships with tribes engaged in economic development activity. According to the 2000 Census, there are over 2.5 million Native Americans and Alaskan and Hawaiian Natives, and the average unemployment rate on reservations in 1999 was 43 percent. The SBA is dedicated to ensuring that all Native Americans who seek to create, develop and expand small businesses have full access to the necessary business development and expansion tools available through Agency programs. This program is a comprehensive initiative designed to meet specific cultural needs and to result in small business creation. This initiative will make funding directly available to tribes to assist in economic development and job creation.

In addition to our initiative to assist Native Americans, the SBA operates two complementary programs to serve businesses which face difficulties due to particular economic and social reasons or geographic locations. The 8(a) Business Development Program assists the development of small companies owned and operated by socially and economically disadvantaged individuals. Eligible companies may be awarded set-aside federal contracts and other business development assistance. The number of contracting opportunities for small businesses has declined overall, including for 8(a). In response to that disturbing trend and to other concerns about the program, I ordered a review. While we have not completed that review, I can tell you that we will continue to work on ways to streamline the process required of applicants and to increase our efforts to obtain contract assistance for the program. We are also looking at ways to better define the individual needs of individual 8(a) firms and to increase their access to technical assistance and procurement opportunities.

Many 8(a) companies are located in areas designated as HUBZones (Historically Underutilized Business Zones) by the SBA's program which encourages economic development in distressed areas through federal contract award preferences for qualified small businesses located in such areas. Procuring agencies have not used this program to the extent possible. We are looking at a variety of ways to increase the federal contracts that these businesses receive as well as increasing their private sector contracting opportunities.

It is our goal to treat the 8(a) and HUBZone programs equally and not as competitors. I believe that they are both powerful tools that will help the federal government meet and exceed its small business contracting goals.

The SBA will also be implementing the President's management agenda, an agenda that includes restructuring our workforce, increasing the use of competitive sourcing, expanding use of technology and managing for results. Part of our operating expenses will increase as a result of shifting $18 million in pension and health benefits that were previously part of the Office of Personnel Management's budget.

The Loan Monitoring System (LMS) will allow us to do on-line monitoring of our lending partners. The SBA has contracted with KPMG to review the planning steps taken to ensure compliance with the law and remain consistent with the project parameters. In March we will receive a detailed outline of options. These options will allow the SBA to implement various modules, depending on cost benefit. Currently the vast majority of our oversight is done through on-site reviews of our lending partners and contracted audits for the Small Business Lending Companies.

SBA has taken steps to strengthen and institutionalize its "Information Technology [IT] Planning and Investment Control Process" to improve selection and control of IT projects in a portfolio environment and to improve formulation of the IT budget. Doing so will help the SBA meet the requirements of the Clinger-Cohen Information Technology Management Reform Act.

I want to briefly discuss two programs which we do not plan to fund in FY 2003. The Program for Investment in Microentrepreneurs (PRIME) mirrors the existing Microloan technical assistance program. We cannot justify funding two nearly identical programs. Our Microloan intermediaries and our non-loan technical assistance providers already offer a full range of services for prospective microloan borrowers and microentrepreneurs. Their resources combined with the array of other programs such as WBCs and SBDCs will fully meet the needs of microentrepreneurs.

The Business Learning, Innovation, Networking and Collaboration (BusinessLINC) Program replicates other existing SBA technical assistance programs that foster mentor-protégé relationships, as well as programs at NASA and the Department of Defense. BusinessLINC also duplicates SBA's 7(j) management and technical assistance program, which provides contract grants and cooperative agreements to organizations that provide direct assistance to small and emerging businesses. Finally, BusinessLINC was designed to provide small businesses with an online information source and database of companies interested in mentor-protégé programs. We can achieve those goals through existing BICs, WBCs and PRO-Net, as well as through the private sector.

The SBA will celebrate its 50th anniversary in July 2003. In its half-century in existence, the SBA has assisted hundreds of thousands of businesses in their formative stages. Many of those companies have names with which all of you here are quite familiar – names like Federal Express, Intel and Nike, to name just three.

We are working hard at the SBA to make certain that the Agency retains its leadership position as it looks forward to another half-century and will continue to provide crucial assistance to the next Federal Express or the next Intel. As I have taken a close look at our programs and services throughout my first year as Administrator, I have seen what the SBA can do and what the SBA needs to do to keep its programs in tune with the ever-changing economy.

We cannot do this alone. I know that I have spoken with some of you individually, but I want to take this opportunity while we are all together to enroll you in these efforts.

As I mentioned at the beginning of my testimony, the SBA's FY 2003 request is a good one for small businesses and offers a beginning point for us to work in tandem with our partners in Congress to ensure that the SBA remains an effective, relevant agency that provides twenty-first century service for the small business community's needs. We ask for your support for this budget. Thank you for the opportunity to appear here today. I will be happy to answer your questions.

Chairman KERRY. Thank you very much, folks. I apologize for the interruption.

We will now begin with Mr. Anthony Wilkinson, president and chief executive officer of the National Association of Government Guaranteed Lenders; Chris Crawford, executive director, National Association of Development Companies from McLean, Virginia; Alan Corbet, executive director of The Growth Opportunity Connection, Kansas City, Missouri; Amanda Zinn, chief executive officer, Women Entrepreneurs of Baltimore; and Don Wilson, president of the Association of Small Business Development Centers.

Folks, we need to keep you each, if you will, to the 5-minute limit. I must be strict about it. Your full statements will be put in the record as if read in full, but we have a lot to try to move through in a relatively short period of time.

Mr. Wilkinson.

STATEMENT OF ANTHONY WILKINSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS, INC., STILLWATER, OKLAHOMA

Mr. WILKINSON. Mr. Chairman, thank you for having me here today.

To begin with, I want to say thank you for all the efforts that you and Senator Bond and the other Members of this Committee have made over the past year. We appreciate your recognition of the fact that 7(a) program users have been significantly overcharged and the efforts on S. 1499, S. 1196 and the Department of Defense Appropriation bills are greatly, greatly appreciated.

Regarding the particulars of the fiscal year 2003 budget, it is our opinion that this budget is simply an attempt to focus the discussion away from the subsidy rate calculation again, blames Congress for the low fiscal year 2003 7(a) levels, tries to put one SBA program against another, and last and more importantly, it does not address the long-term credit needs of small business.

Chairman KERRY. So in other words, you think it is a great budget.

Mr. WILKINSON. For fiscal year 2003, NAGGL requests support for a $12 billion 7(a) program. SBA anticipated enough carryover from this year to fund about $2 billion worth of demand next year, so we need to come up with sufficient appropriations to fund an additional $10 billion in lending at a reported subsidy rate of 1.76—that means we need $176 million in appropriations. Now we know that the subsidy rate is overestimated and a lot of these appropriation dollars will simply be returned to Treasury, but we have simply got to get this done. Small business needs 7(a) financing next fiscal year.

I briefly wanted to touch on a couple of things from the Administrator's testimony. He talked about an econometric modeling and coming up with a way to be accurate on their subsidy calculation. We are not asking for a totally accurate subsidy rate calculation. We are asking for something that is simply reasonable.

He commented that the subsidy rate for fiscal year 2003 was going to decline by 20 percent, yet OMB has been missing the mark by over 150 percent every year on their subsidy rate calculations.

So while yes, the 20 percent decrease is appreciated, it is nowhere close to the amount that has been overestimated.

OMB is using a 12.87-percent default assumption in the 7(a) model for 2003 yet table 6 of the Federal Credit Supplement estimates defaults at 9.38. I hope somebody can explain that difference some time. The 9.38 percent would be slightly higher than the average defaults of 8.81 since the implementation of credit reform and would lead to a drop in the subsidy rate by over 100 basis points. Which means then that the fiscal year 2003 subsidy rate could be cut by more than half.

OMB has been testifying since 1997 that they were planning to implement econometric modeling in estimating the SBA 7(a) subsidy rate. Here we are in 2002, same thing. I am beginning to wonder if this is simply a stalling tactic.

It is our belief that there is really not a problem with the current model. It is a net cash flow model. The problem is the assumptions that OMB plugs into the model. Again, I go back to the 12.87 default assumption when they fully expect defaults to be in the 9.38 percent range.

For the fiscal year 2003 budget, OMB clearly ignored the directives of this Committee and the House Small Business Committee. They have ignored the report language in Treasury Postal Appropriations from last year. It is simply time for us to come up with a solution. It is time for the overcharges to stop.

They made some other proposals in the budget to move large 7(a) real estate loans into 504. Large 7(a) real estate loans pay the highest fees of any of the loans. They pay a disproportionately high share of all 7(a) fees. What they did not tell you is if you move those real estate loans out of the 7(a) program that the 7(a) subsidy rate in the fiscal year 2004 budget will go up and go up substantially. We will be right back here next year talking about the same thing because the loans paying the highest share of fees in 7(a) would be taken out of the program.

Without the larger loans in their portfolio to offset the cost of making small loans, many lenders have told us they would simply quit making SBA loans because they cannot balance their portfolio. They need the larger loans in their portfolio to offset the costs of making smaller loans.

Last, to highlight something that you and Senator Bennett picked up on, this program creates jobs. There is a preliminary report from the Bureau of Labor Statistics that shows that the fiscal year 1998 cohort of loans has created some 200,000 jobs already. So this program is about jobs and the Administration should support it.

Mr. Chairman, thank you.

[The prepared statement of Mr. Wilkinson follows:]

NAGGL

The Answers You Trust
The Training You Expect
The Voice You Need

Testimony for the Senate Committee on Small Business
And Entrepreneurship

submitted by

Anthony R. Wilkinson
President and Chief Executive Officer

The National Association of
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P.O. Box 332
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Wednesday, February 27, 2002

SBA 7(a) Program

Re-estimates Compared to Appropriations

$ in millions

Year	Re-estimate $	Appropriation $
1995	59	213
1996	-100	78
1997	-277	173
1998	-647	197
1999	-176	134
2000	-117	114
2001	-171	107
2002	n/a	* 153
Totals	-$1,429	$1,169

*includes the $75 million in the FY 2002 Department of Defense appropriations bill for STAR loans.

Note: The bulk of the re-estimates are for loan cohorts FY 1992-1999. ***Total downward re-estimates will continue to increase***. Loan cohorts 2000 through 2002 used default estimates well above actual performance. The downward re-estimates, for these loan cohorts, will be not be recognized by OMB until these cohorts move past peak defaults (year 3). Even so, ***the cumulative subsidy budget outlays for the SBA 7(a) program since 1995 total - $260 million***. This means the 7(a) program has been run at a profit to the government, and that the amounts appropriated by Congress, for credit subsidies, have not been spent for that purpose.

The 2002 re-estimate will be made after the close of the fiscal year.

The National Association of Government Guaranteed Lenders, Inc. ("NAGGL") is a trade association for lenders and other participants who make approximately 80 percent of the Small Business Administration ("SBA") section 7(a) guaranteed loans. The SBA's 7(a) guaranteed loan program has proven to be an excellent public/private partnership. Over the last decade, the SBA has approved more than 424,000 loans for over $90 billion. We thank the Committee for e opportunity to comment on the SBA 7(a) program.

Since the beginning of "Credit Reform" in 1992, the SBA 7(a) subsidy rate has fallen from a high of 5.21 to the current services level for FY 2002 of 1.07. This represents an 80% reduction in the estimated cost of the program to the government. This reduction in subsidy costs has been achieved by improved underwriting guidelines, establishment of lender review procedures, and fee increases on both borrowers and lenders.

There are many positive attributes of the SBA 7(a) loan program, including:

- SBA loan programs provide approximately 40% of all long-term loans (loans with maturities of three years or longer) to small businesses. The SBA is the largest single provider of long-term loans to small business. This is contrary to the Administration budget that claims SBA provides only 1% of annual small business lending.

- SBA 7(a) loans have significantly longer maturities than conventional loans to small businesses. The average original maturity of SBA 7(a) loans, according to the Office of Management and Budget ("OMB"), is 14 years. By comparison, only 16% of conventional small business loans have maturities in excess of one year, and of those loans, the average maturity is less than four years

- Longer maturities mean substantially lower monthly payments for borrowers. For example, the difference in monthly payments from a 10 year SBA 7(a) loan to a five year conventional loan (which would be above the average maturity for conventional loans), would be 35-40%. This is a significant increase for the average SBA borrower who tends to be a new business startup or an early stage company.

- Small businesses do not have the same access to debt-capital as do large businesses. The SBA programs bridge that capital gap. Banks should not be expected to make long-term loans, the kind most needed by small business, when banks are funded by a short-term deposit base.

- The SBA 7(a) appropriations are leveraged almost 99 to 1 by the private sector, making this one of the governments' best economic development instruments. With a more accurate subsidy rate estimate (as discussed below), the leverage ratio would be even higher.

- The SBA 7(a) loan program is just that – a loan program – which helps qualified small businesses obtain the long-term loans they need for growth and expansion. This means jobs, and a "net return on investment" for our local communities and the US Treasury.

Unfortunately, the Administration's budget request for FY 2003 for the SBA 7(a) loan program does not adequately address the needs of small businesses of this nation. The Administration proposes to reduce the 7(a) program by more than half at a time when these kinds of loans are especially needed. The Administration also continues to use an overly conservative, unjustifiable default assumption in the subsidy model that leads to a subsidy rate that over-estimates the cost of the program. The results are fees that are higher than necessary for borrowers and lenders, and an inefficient appropriations process.

In testimony before the House Small Business Committee in 2000, the former SBA Administrator testified "the program is already being run at a profit to the government." At that same House Small Business Committee hearing, a representative of SBA's CFO's (Chief Financial Officer) office testified that the default rate for the SBA 7(a) loan program was being managed "in the 8%-10% range." Yet OMB requires the use of an almost 13% default rate in the subsidy rate calculation. Each 1% reduction in the default estimate would reduce the subsidy rate by approximately 34 basis points, or .34. If the highest SBA default estimate of 10% (per the House testimony in 2000) were used, the projected current services subsidy rate of 1.76% for FY 2003 would be reduced by approximately 90 basis points. This would mean that OMB has calculated a subsidy rate that will prove to be more than twice the actual cost of the program.

Senate Roundtable on the 7(a) Loan Guaranty Program

On September 5, 2001, the Senate Small Business Committee held a roundtable discussion on the subsidy calculation of the SBA 7(a) program. Prior to the hearing, the GAO (General Accounting Office) issued a report indicating that OMB had overestimated defaults in the 7(a) program by more than $2 billion. GAO also said that SBA had submitted a proposal to OMB that would change the basis for the 7(a) program default estimate "in order to more closely track with actual loan performance in the future." The SBA recommended using a "five year lookback period" on default data, and this would have resulted in a default estimate of 9.74% (in the 8% to 10% range that was provided in the SBA CFO testimony), and a subsidy rate of –0.40% for FY 2002. OMB rejected the SBA proposal. OMB required a 1.07% subsidy estimate for FY 2002.

GAO also provided other default estimate scenarios. One was to look at all default history since the implementation of the Federal Credit Reform Act (post-1991 loans). This approach would have yielded a default estimate of 8.81% (again in the 8% to 10% range that was provided in the SBA CFO testimony), and would have resulted in a –0.54% for FY 2002. OMB rejected this approach.

The transcript of the proceedings, from the September 5, 2001 roundtable, provides some interesting information. Dr. Lloyd Blanchard, then the Associate Director, General Government Programs, Office of Management and Budget, and now the Chief Operating Officer at SBA, told the Senate panel:

> "The history of this program is one that has had an unfortunate one. The Administration is working in its first year to correct this problem, and it is one that we inherited, that, as you all have mentioned, is a serious problem...We recognize that over the past 10-12 years there is a cumulative $2 billion that has gone back to Treasury."

We appreciated Dr Blanchard's comments, but with the release of the FY 2003 budget request, it was clear that OMB did not correct the subsidy problems. To hit the target OMB default rate, repurchased loans would have to increase by 30% to 0%.

Dr. Blanchard also said, in response to a comment from Senator Bennett (R-UT) who likened the subsidy calculation to a tax:

> "The purpose of the calculation is to predict the credit subsidy rate that not only shares the risk among the government and the borrowers and lenders, but also creates a self-financing program."

It is clear that this is how OMB has calculated the 7(a) subsidy rate. But the Federal Credit Reform Act of 1990 provides different reasons for the calculation. One purpose is to "measure accurately the costs of Federal credit programs. According to the Act, the cost of a loan guarantee "shall be the net present value, at the time when the guaranteed loan is disbursed, of the (i) payments by the Government to cover defaults and delinquencies, interest subsidies, or other payments; and (ii) payments to the Government including origination and other fees, penalties and recoveries." The Act DOES NOT GIVE OMB THE AUTHORITY TO UNILATERALY ADD AN ADDITIONAL AMOUNT SO THE PROGRAMS ARE "SELF-FINANCING." Yet that is exactly what OMB has done.

Another stated purpose of the Federal Credit Reform Act is to "improve the allocation of resources among credit program and between credit and other spending programs." OMB has clearly failed in this regard as the appropriation process for the 7(a) program, as a result of their unreasonable subsidy calculation, is very inefficient. As the opening table of this testimony shows, on a cumulative basis since 1995, every dollar appropriated for credit subsidies plus another $260 million has been returned to Treasury. This means OMB HAS DISREGARDED THE ANNUAL APPROPRIATIONS PROVISIONS AND USED THE MONEY FOR OTHER PURPOSES.

"Smoke and Mirrors" Accounting

Attached to this testimony are several charts. The first chart (page 1 of the testimony) details the re-estimates for the SBA 7(a) program since 1995. The number totals $1.429 billion! NAGGL has been complaining for years that the basic subsidy rate materially overstates the government's cost of the program. Based on information NAGGL recently obtained (see the attachment "un-weighted purchase rates"), you can see that OMB is not telling the whole truth even in the re-estimate process. The chart shows that OMB uses default estimates in the re-estimate process that are substantially higher than the "expected" purchase rate for fiscal years 1995 through 2001! NAGGL estimates that if the "expected" purchase rates were used in the re-estimate process, and additional $400-$600 million in downward re-estimates. The total downward re-estimates in the 7(a) program would then approximate the number that Dr. Blanchard testified to at the September 5, 2001 roundtable.

Another question arises from Table 6 of the Federal Credit Supplement to the FY 2003 Budget. This table reports a default estimate for SBA 7(a) loans to be made in FY 2003 of 9.38%. Yet in the subsidy calculations, OMB requires the use of a 12.87% default estimate. Why?

The 9.38% default estimate would fall in the range of defaults (8%-10%) that the SBA CFO's office testified to in 2000. A 9.38% default rate would be slightly higher (according to GAO) than the average default rate for loan cohorts 1992 forward. A 9.38% default rate would reduce the FY 2003 7(a) subsidy rate by over 100 basis points, leading to a subsidy rate of less than .75% rather than the 1.76% reported by OMB. Why was the 9.38% default estimate not used?

Lastly, OMB reports that the government would be saving money by moving large loans out of the SBA 7(a) program and into the SBA 504 program. Yet SBA 7(a) loans pay higher fees to the government than do SBA 504 loans. It is clear that large SBA 7(a) loans are used to offset the costs of small 7(a) loans. Moving large loans out of the SBA 7(a) program will cause the SBA 7(a) subsidy rate to rise SUBSTANTIALLY in the FY 2004 budget.

So this "smoke and mirrors" accounting scheme means one of two things. Either OMB is trying to shut down the SBA 7(a) program – move large loans out of the 7(a) program, drive up the subsidy costs on small loans, force lenders out of the program – or this is a punitive budget request for the SBA 7(a) legislative efforts made over the last year. Whichever it is, it is a bad budget for small businesses that need access to capital!

Treasury-Postal Appropriations

In the Treasury-Postal appropriation bill for the FY 2002, the conferees included report language stating they were concerned that borrowers and lenders have been paying fees much higher than necessary for the SBA 7(a) and 504 loan programs. The conferees stated that "this is the direct result of the fact that the subsidy rate model developed to determine a program's subsidy rate uses default assumptions that do not reflect recent program performance of either the 7(a) program or the 504 program, or the legislative and administrative changes made to these programs in the 1990's."

The Administration issued a Statement of Administration Position (SAP) opposing the inclusion of this language in the Treasury-Postal appropriation bill. The Administration claims the provision "purports to mandate how subsidy estimates should be calculated for the SBA 7(a) General Business and 504 Certified Development Company loan programs." The Treasury-Postal language did not "mandate" how credit subsidies should be calculated, but rather states the subsidy estimates made by OMB in the 7(a) and 504 program do not reflect actual performance, and need to be modified.

The conferees also directed OMB to report back to Senate and House Small Business, Budget and Appropriation committees, within 30 days of enactment of the Treasury-Postal appropriation bill, on new subsidy rate estimates being developed for inclusion in the President's FY 2003 budget request. It is our understanding that OMB did not comply with this requirement.

NAGGL Requests

Small businesses continue to need access to long-term capital. NAGGL requests your support of sufficient appropriations to fund a $12 billion 7(a) program for FY 2003. We believe loan volume will increase next year for a variety of reasons, including the passage of S. 1196, that reduces fees for 7(a) program participants effective October 1, 2002. The Administration's proposed program level of $4.85 billion is totally insufficient to meet borrower demand.

Next, NAGGL requests your continued efforts to force OMB to calculate a fair and reasonable 7(a) subsidy rate. NAGGL supports stronger language in the Treasury-Postal appropriation bill for FY 2003. NAGGL would support a modification to the Federal Credit Reform Act to have the subsidy calculated by an independent third party. Perhaps we should try a "pilot" revolving fund for the SBA 7(a) program. It is clear to us at NAGGL that, until OMB is somehow held accountable for the decisions made, OMB will simply ignore the will of Congress, and will continue to overcharge SBA 7(a) borrowers and lenders.

Lastly, we request that the Small Business and Budget Committees hold a joint hearing to review OMB's implementation of the Federal Credit Reform Act. Substantially more than 100% of the dollars appropriated for the 7(a) program since 1995 have been returned to the Treasury. This is not right. This is not fair. **OMB IS LEVYING AN UNAUTHORIZED TAX. IT IS TIME FOR A SOLUTION!**

Unweighted Purchase Rates 7(a)

(as percent of SBA-share disbursed)	(1) Total To Date	(2) Rate in Re-estimate	(3) Expected Total
Cohort 1986 (4)	20.29%	20.29%	20.29%
Cohort 1987	19.99%	20.01%	19.99%
Cohort 1988	22.08%	35.78%	22.13%
Cohort 1989	19.99%	20.04%	20.04%
Cohort 1990	20.95%	21.05%	21.09%
Cohort 1991	15.61%	15.78%	15.79%
Cohort 1992	10.24%	10.51%	10.44%
Cohort 1993	7.92%	8.37%	8.25%
Cohort 1994	7.51%	8.24%	7.94%
Cohort 1995	8.28%	9.48%	9.10%
Cohort 1996	8.27%	10.30%	9.97%
Cohort 1997	6.49%	9.90%	9.13%
Cohort 1998	5.59%	11.11%	9.83%
Cohort 1999	3.36%	11.95%	9.24%
Cohort 2000	0.98%	13.14%	8.10%
Cohort 2001	0.04%	13.75%	10.57%

1) Actual Purchase rate to June 2001 (Annualized).
2) The Re-estimate uses the actual results to date plus the average purchase curve for all cohorts for the cohort's remaining life..
3) The Expected Total is the results to date extended for the cohorts' life by using the slope of the average for all cohorts. Essentially, it is a customized mathematical extension.
4) The 1986 cohort has reached the average maturity of the program; however, minimal amounts of new defaults should be expected.

Table 6.—LOAN GUARANTEES: ASSUMPTIONS UNDERLYING THE FY 2003 SUBSIDY ESTIMATES—Continued

(In percentages, unless noted otherwise)

Agency, Bureau, Program and Risk Category	Subsidy rate	Composition of Subsidy: Defaults, net of recoveries	Composition of Subsidy: Interest	Composition of Subsidy: Fees	Composition of Subsidy: All other	Loan Characteristics: Loan maturity (years)	Loan Characteristics: Borrower rate	Loan Characteristics: Grace period (years)	Loan Characteristics: Upfront fees	Loan Characteristics: Annual fees	Loan Characteristics: Other fees	Loan Characteristics: Default rate [1]	Loan Characteristics: Recovery rate [2]	Loan Characteristics: Percent guaranteed
Department of Treasury														
Office of the Secretary:														
Air Transportation Stabilization Board Loan Guarantee	29.26	29.26	....	....	....	7	....	....	....	....	....	39.30	20.00	90.00
Department of Veterans Affairs														
Veterans Benefits Administration:														
Veterans Housing Benefit Program	1.07	4.15	....	−1.82	−1.27	30	6.29	....	[15] 1.76	....	[16] 0.06	10.59	49.98	[17] 25.00
Guaranteed Loan Sale Securities	5.18	5.14	....	....	0.03	30	6.29	....	....	....	....	15.07	60.00	100.00
International Assistance Programs														
Agency for International Development:														
Development Credit Authority	6.44	8.87	....	−2.43	....	10	4.91	....	0.50	0.50	....	12.18	....	50.00
Overseas Private Investment Corporation:														
OPIC Guarantees	1.70	9.09	....	−7.39	....	11	....	2	0.50	2.00	....	15.00	50.00	100.00
Small Business Administration														
General Business Loan Programs:														
7(a) General Business Loans	1.76	4.21	....	−2.37	−0.08	14	10.50	....	2.37	0.25	....	9.38	57.95	73.75
7(a) General Business Loans—DELTA	2.40	4.84	....	−2.37	−0.08	14	10.50	....	2.37	0.25	....	....	....	73.75
Section 504 Certified Development Companies Debentures	....	3.02	....	−5.62	2.59	19	5.86	....	0.70	0.57	....	8.32	19.97	100.00
Section 504 Certified Development Companies Debentures—DELTA	0.88	3.48	....	−5.58	2.98	19	5.86	....	0.70	0.57	....	9.57	19.97	100.00
Section 7(m) Microloan Guaranty	8.42	1.82	....	....	6.61	10	3.88	5	....	....	....	5.09	50.01	100.00
SBIC Debentures	....	9.45	....	−3.08	−6.37	10	9.29	....	3.08	0.89	....	25.00	60.00	100.00
SBIC Participating Securities	....	6.58	....	−3.08	−3.50	10	7.85	....	....	7.65	1.31	....	....	100.00
SBIC New Markets Venture Capital	15.46	15.46	....	....	....	10	....	....	....	....	....	40.00	54.00	100.00
Other Independent Agencies														
Export-Import Bank of the United States:														
Short, Medium, and Long Term Guarantees and Insurance Program	5.52	11.34	....	−5.81	....	5	4.50	4	6.03	0.13	....	19.09	17.00	100.00
Presidio Trust:														
Presidio Trust Loan Guarantee Program	0.13	0.63	....	−0.50	....	20	....	....	0.50	....	....	15.00	70.00	75.00

* Nonzero amount rounds to zero, based on units for this column.

[1] Lifetime defaults as a percentage of disbursements.

[2] Recoveries as a percentage of lifetime defaults.

[3] Reflects a weighted average, fees range from 1 percent to 2 percent.

[4] Subsidized and unsubsidized Stafford loans include a six month grace period.

[5] Recoveries include interest.

[6] The Government guarantees 98 percent of principal for private lenders and 95 percent for guaranty agencies.

[7] Rates are set at the weighted rate of the loans consolidated, rounded up to the nearest eighth of a percent.

[8] Sallie Mae pays the Department of Education a fee amount specified in statute. This fee is calculated annually in an amount equal to 0.30 percent of the principal amount of each loan made, insured, or guaranteed under the FFEL program that Sallie Mae holds, provided that the loan was acquired on or after August 4, 1993 (the date of enactment of the Student Loan Reform Act, which created the fee).

Portfolio Performance: Purchase and Recovery Rates:

Transactional data is available since Activity Year 1989. Activity in 1990 for all cohorts has been adjusted upward by 1/4 due to the unavailability of data for April, May and June of that year. Outyear projections following "peak" years are made based on a dy/dx factor (relative slope of a line). It has been found that the general shape of the purchase and recovery curves is similar across cohorts (see charts). Outyear projections, unless otherwise specified, are made based on the average relationships between activity years (see dy/dx factor).

Unweighted Purchase Rates

	Total To date	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Cohort 1986	20.29%	20.29%	0.02%	2.24%	5.86%	4.63%	2.41%	2.02%	1.25%	0.90%
Cohort 1987	19.98%	19.99%	0.02%	1.70%	4.94%	4.03%	3.48%	2.32%	1.56%	0.63%
Cohort 1988	22.08%	22.13%	0.05%	2.56%	5.42%	5.35%	3.73%	2.14%	1.06%	0.68%
Cohort 1989	19.89%	20.04%	0.15%	2.33%	5.55%	4.64%	2.90%	1.65%	1.10%	0.60%
Cohort 1990	20.95%	21.09%	0.08%	3.13%	6.16%	4.27%	2.95%	1.81%	1.28%	0.50%
Cohort 1991	15.61%	15.79%	0.13%	2.42%	3.68%	3.29%	2.17%	1.90%	0.88%	0.49%
Cohort 1992	10.24%	10.44%	0.06%	1.35%	2.65%	2.24%	1.69%	0.95%	0.52%	0.34%
Cohort 1993	7.92%	8.25%	0.03%	0.94%	2.12%	2.03%	1.17%	0.69%	0.47%	0.27%
Cohort 1994	7.51%	7.94%	0.06%	1.00%	2.20%	1.74%	1.09%	0.72%	0.41%	0.29%
Cohort 1995	8.28%	9.10%	0.05%	1.20%	2.28%	1.92%	1.41%	0.83%	0.56%	0.33%
Cohort 1996	8.27%	9.97%	0.03%	0.94%	2.33%	2.71%	1.56%	1.18%	0.70%	0.40%
Cohort 1997	6.40%	9.13%	0.07%	0.77%	1.94%	2.10%	1.67%	1.08%	0.65%	0.37%
Cohort 1998	5.69%	9.63%	0.05%	0.67%	2.26%	2.41%	1.64%	1.07%	0.64%	0.36%
Cohort 1999	3.36%	9.24%	0.03%	0.83%	2.50%	2.13%	1.45%	0.94%	0.56%	0.32%
Cohort 2000	0.88%	6.10%	0.02%	0.98%	2.17%	1.81%	1.23%	0.80%	0.48%	0.27%
Cohort 2001	0.04%	10.57%	0.04%	1.25%	2.77%	2.36%	1.61%	1.04%	0.82%	0.35%
Average of Historical Transactional Da		14.39%	0.0534%	1.5492%	3.5645%	3.1422%	2.2047%	1.4749%	0.9072%	0.5439%

	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Cohort 1986	0.33%	0.25%	0.10%	0.08%	0.07%	0.03%	0.04%	0.01%
Cohort 1987	0.50%	0.35%	0.18%	0.09%	0.09%	0.09%	0.00%	0.00%
Cohort 1988	0.43%	0.23%	0.16%	0.14%	0.09%	0.04%	0.03%	0.02%
Cohort 1989	0.33%	0.27%	0.14%	0.07%	0.06%	0.02%	0.01%	0.01%
Cohort 1990	0.36%	0.20%	0.15%	0.09%	0.08%	0.03%	0.02%	0.02%
Cohort 1991	0.39%	0.18%	0.10%	0.07%	0.05%	0.02%	0.02%	0.01%
Cohort 1992	0.11%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1993	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1994	0.16%	0.10%	0.06%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 1995	0.19%	0.12%	0.07%	0.04%	0.04%	0.01%	0.01%	0.01%
Cohort 1996	0.23%	0.14%	0.08%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1997	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1998	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1999	0.18%	0.11%	0.06%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 2000	0.15%	0.10%	0.05%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 2001	0.20%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Average of Historical Transactional Da	0.33[illegible]	0.2298%	0.1393%	0.0959[illegible]	0.0775[illegible]	0.054[illegible]	[illegible]	0.0107%

DATE: 01/10/2002 TEN YEAR PARTICIPATION IN GUARANTEE PROGRAM MARS 000
LOCATION: AS OF 09/30/2001 DOLLARS IN THOUSANDS

MAIN BANK ID: MAIN BANK NAME:
STREET: CITY/STATE: ZIP: 00000

FY	APPROVAL	F. CANCL	DISBRSED	OUTSTANDING REG SERV	OUTSTANDING IN LIQ	PIF	SUBSEQUENTLY PURCHASED SERV	SUBSEQUENTLY PURCHASED CHRG OFF	SUBSEQUENTLY PURCHASED IN LIQ	SUBSEQUENTLY PURCHASED PIF	CHRG OFF AMT	CHRG OFF RATE	PURCH RATE
							---PURCHASE	AMOUNT---					
2001	# 42,958	3,349	25,471	25,328	100	317	0	1	14	0	1	0.0%	0.0%
	$ 9931,806	841,652	5625,725	5233,244	22,994	47,209	0	151	4,107	0	151	0.0%	0.0%
2000	# 43,751	5,699	36,705	32,714	1,070	2,862	25	103	258	2	103	0.2%	1.0%
	$10610,020	1433,705	8802,593	7255,594	212,630	549,194	5,775	11,974	80,404	1,430	11,108	0.1%	1.1%
1999	# 43,650	6,213	36,743	27,813	1,609	6,046	45	591	785	17	591	1.6%	3.9%
	$10234,509	1412,822	8643,547	5921,938	303,222	1214,956	13,310	56,771	212,340	4,706	53,841	0.6%	3.3%
1998	# 42,308	6,018	35,804	21,712	1,498	10,129	111	1,362	1,020	46	1,362	3.8%	7.0%
	$ 9104,949	1296,498	7671,090	3976,526	221,334	2016,171	19,004	132,936	242,023	11,556	117,794	1.5%	5.2%
1997	# 45,368	6,268	38,668	18,306	1,276	15,569	156	2,368	918	104	2,368	6.1%	9.1%
	$ 9574,109	1523,289	7915,790	3057,504	151,397	3051,376	21,554	234,169	188,007	28,783	202,044	2.5%	5.9%
1996	# 45,879	5,940	39,625	13,503	1,015	20,413	184	3,512	813	174	3,512	8.8%	11.8%
	$ 7763,373	1034,820	6635,165	1742,529	96,905	3255,306	23,120	301,519	150,924	34,620	249,822	3.7%	7.6%
1995	# 55,514	6,639	48,589	11,737	756	29,775	201	5,106	617	316	5,106	10.5%	12.8%
	$ 8294,149	1056,607	7141,822	1278,526	62,228	4202,079	20,269	369,990	89,505	43,136	309,802	4.3%	7.3%
1994	# 36,036	3,805	32,027	6,588	310	21,443	164	2,805	323	358	2,805	8.7%	11.3%
	$ 8203,556	928,039	7176,270	1105,063	46,006	4710,324	19,918	323,402	67,375	61,663	239,177	3.3%	6.5%
1993	# 26,238	2,825	23,226	3,954	144	16,725	132	1,704	183	383	1,704	7.3%	10.3%
	$ 6719,187	730,480	5900,478	736,136	26,962	4094,112	23,095	277,738	41,781	71,460	177,974	3.0%	7.0%
1992	# 23,604	2,349	20,976	2,937	76	15,372	165	1,846	117	520	1,846	8.8%	12.6%
	$ 5879,857	605,231	5194,848	523,327	11,338	3649,937	35,347	327,441	24,183	93,906	216,160	4.1%	9.2%
1991	# 18,887	1,995	16,143	1,574	40	11,798	202	2,053	81	561	2,053	12.7%	17.9%
	$ 4357,781	468,405	3785,258	302,975	7,153	2593,830	37,150	397,623	20,176	88,593	243,468	6.4%	14.3%
AGENCY	# 381,235	47,751	328,506	140,838	7,794	150,132	1,385	21,450	5,115	2,481	21,450	6.5%	9.2%
TOTAL	$80741,490	10489,894	68866,863	25900,117	1139,175	29337,284	218,542	2433,562	1116,717	439,854	1821,189	2.6%	6.1%
INCLUDES CURRENT FY													
AGENCY	# 424,193	51,100	353,977	166,166	7,894	150,449	1,385	21,451	5,129	2,481	21,451	6.0%	8.6%
TOTAL	$90673,295	11331,546	74492,588	31133,361	1162,169	29384,493	218,542	2433,712	1120,823	439,854	1821,340	2.4%	5.6%

AMERICAN BANKER
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2/12/02
P. 1

In Bush Plan, A Hidden Cut For SBA Loans

■ BY NICOLE DURAN

WASHINGTON — Defenders of the Small Business Administration's principal loan guarantee program are girding for battle — again — as President Bush's budget proposes scaling back the flagship program.

Lenders won last year when Congress reduced 7(a) program fees for the 2002 fiscal year and rejected the President's proposal to finance the program completely with those fees.

When President Bush released his budget plan for fiscal 2003 last week, his SBA proposal looked innocuous enough: $798 million to run the agency, a 3.8% increase. But a closer look shows that if lawmakers approve it as written, the amount of small-business loans the agency could back next year would be halved, to $4.85 billion.

"The President's budget request for the SBA has some strong points, but cutting the 7(a) guaranteed business loan program at the same time the Federal Reserve Board is reporting that banks have tightened business loan credit standards makes no sense," Sen. Christopher S. "Kit" Bond, said in a release Friday. The Missourian is the ranking Republican on the Senate Small Business Committee.

The cut was hard to find because one has to look at the subsidy rate — what the government projects that it costs to administer the program and cover losses per $100 lent.

"It's not there in black-and-white," said committee spokesman J. Craig Orfield.

How that rate is calculated has been a source of debate between lenders' groups, such as the National Association of Government Guaranteed Lenders, and the White House for years, and it is sure to come up during a House Small Business Committee hearing on budget matters Wednesday.

Scheduled witnesses include SBA Administrator Hector V. Barreto Jr. and the lender association's president, Anthony R. Wilkinson.

The Office of Management and Budget sets the formula that the SBA must use to determine what is needed for reserves to cover losses and for administrative overhead. Critics say it overestimates defaults and forces lenders and borrowers to pay too much in fees — some of which end up in the general Treasury for use on non-SBA items.

The General Accounting Office agreed in a report issued last summer, saying that the SBA and the Office of Management and Budget have overestimated the cost of the 7(a) program by $958 million, and counting, since 1992.

"They did it to us again," Mr. Wilkinson said. "We were overcharged $164 million in 2001."

The current rate is 1.07, which means the government sets aside $1.07 for every $100 in loans it guarantees. This year the agency has set aside $107 million to back $10 billion of loans.

The subsidy rate would have been 0.88 for 2003 had Congress not reduced fees. That curtailed the income to the program and forced the OMB to raise the rate to 1.76 to cover the difference, an SBA official said.

That distressed officials at the Senate Small Business Committee, which said the OMB had promised Congress last fall to lower the rate to between 0.1 and 0.5 for next year.

So, even though the proposed budget would increase the program's direct appropriation by 9%, to $85 million, the agency can collect far fewer fees than in 2002. Fees and the appropriation combined represent all the SBA's income.

Mr. Wilkinson said that the subsidy formula requires lenders and borrowers to overpay so much that every dollar appropriated for the 7(a) program since 1992 has actually returned to the Treasury.

"It all goes back to OMB's effort to tax small businesses and use appropriated funds for other purposes," he said.

According to the SBA, it has contracted with outside economists to develop an "econometrics" system to calculate the subsidy rate. The new system should solve the argument in time for the fiscal 2004 budget, the agency said.

Some on the Hill are skeptical, however.

Paul Cooksey, a staff member on the Senate Small Business Committee, said a similar promise made in 1998 remains unfulfilled. ■

NEWS RELEASE

United States Senate

Committee on Small Business and Entrepreneurship

Christopher S. "Kit" Bond, Ranking Member

FOR IMMEDIATE RELEASE
February 8, 2002

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BUDGET's PROPOSED SCALE BACK OF SBA's FLAGSHIP LOAN PROGRAM ILL TIMED, BOND SAYS

(Washington) - Senator Kit Bond today said the Administration's budget proposal, which calls for a 50-percent scale back in funding for the Small Business Administration's guaranteed-loan program, makes no sense when credit is tightening and small businesses continue to struggle in a sluggish economy.

"The President's budget request for the SBA has some strong points, but cutting the 7(a) guaranteed business loan program at the same time the Federal Reserve Board is reporting that banks have tightened business loan credit standards makes no sense," said Bond, Ranking Member of the Senate Small Business and Entrepreneurship Committee.

"Now, more than ever, this SBA flagship program is serving a key role in providing access to long-term credit for small businesses," he added. "Since the Senate's Democratic leaders are blocking passage of a needed economic stimulus plan, cutting the flow of loans through the 7(a) program would do serious harm to small firms."

The President's Fiscal Year 2003 budget was sent to Congress on Monday as the Federal Reserve reported that commercial banks have tightened credit standards for business loans during the past three months.

Bond, who also serves on the Senate Appropriations Committee, said he "will work with colleagues to increase the level of funding for the 7(a) program so that the needs of small businesses are met."

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GAO

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Implications of Proposed Changes

- In March 2001, SBA submitted a proposal to OMB[12] that discusses using 5 years or 3 years of the most recent actual loan performance - referred to as the lookback period[13] - as the basis for the 7(a) program default estimate in order to more closely track with actual loan performance in the future. SBA recommends the 5 year lookback period.
    - This proposal is based on SBA's analysis that showed that the most recent years of actuals are more predictive of near-term future loan performance, notwithstanding a sudden shift in the economy.

[12] In the past, SBA has proposed other methods to refine its default estimates to OMB. According to OMB, SBA has not provided acceptable support that the alternatives would provide better estimates.
[13] For example, under the 5 year lookback period, the 2002 cohort estimate of year one default activity would be based on the average actual first year defaults that occurred for the 1996 through 2000 cohorts and the second year default activity would be based on actual second year defaults that occurred for the 1995 through 1999 cohorts.

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GAO

Implications of Proposed Changes

- The following table contrasts the impact of using the current approach, a 5 year lookback, and a 3 year lookback to estimate the subsidy cost of the fiscal year 2002 cohort.

Estimation Alternatives' Effect on Subsidy Rate and Appropriation for the Fiscal Year 2002 Cohort

	Default Rate	Subsidy Rate	Appropriation
Current Approach	13.87%	1.07%	$114,490,000
5 Year Lookback	9.74%	-0.40%	-$42,800,000
3 Year Lookback	8.97%	-0.61%	-$65,270,000

Source: GAO analysis based on SBA data.

Note: Estimated appropriation assumes that all other assumptions remain unchanged.

32

128 - 4160
MAGAZINE
WASHINGTON BUSINESS JOURNAL
Arlington, VA

Circ- 15,940
Weekly

NOVEMBER 22, 2001
Bacon's

Another bungled policy

Small-business owners everywhere should be disgusted by the slowpokes at the federal Office of Management and Budget. The OMB has been watching the deterioration of the U.S. Small Business Administration's 7(a) loan program for some time now, but says there is nothing it can do before fiscal 2003.

The problem: high fees associated with the 7(a) program have made the loans less attractive to banks and borrowers alike. Hundreds of banks around the country have dropped out of the program, and loan volume for the program was down 6 percent in the last fiscal year alone.

The fees are intended to guard against defaults but are calculated based on default rates from the late 1980s, during the S&L crisis. This, even though default rates have declined sharply in recent years.

Worse, the 7(a) fees — $958 million since 1992 — don't even go to cover bad loans. They go into the general government trough to give Congress more money to spend. In short, they are not really fees at all — they are hidden taxes on emerging growth companies around the country.

OMB is working to lower the fees but says it can't do anything for at least another year. With the economy in recession and small business in need of capital, we deserve better from our government.

■ DALLAS BUSINESS JOURNAL

128-3425 MAGAZINE
SACRAMENTO BUSINESS JOURNAL
Sacramento, CA

Circ- 13,175
Weekly

NOVEMBER 2, 2001

Bacon's

SBA lenders blame lofty fees for dip in 7(a) loans

KENT HOOVER / WASHINGTON BUREAU CHIEF

The dollar volume of loans issued through the U.S. Small Business Administration's flagship 7(a) loan program fell 6 percent in fiscal 2001, but SBA lenders don't blame the weakening economy for the decline.

Instead, they say high fees make the government-guaranteed loans unattractive to both lenders and the small businesses that rely on the program.

"It's tough for me to market those loans," says John Brocato, president and CEO of New Orleans-based BizCapital, Louisiana's largest SBA lender.

Many lenders have dropped out of the SBA program over the past year, he says. In Louisiana, there were more than 100 SBA lenders a year ago; now there are 20.

The future of the 7(a) program is especially important to startups and early-stage companies, which often cannot find long-term loans with low monthly payments elsewhere.

Brocato and a half-dozen other lenders traveled to Washington, D.C., in September for a Senate Small Business and Enterpreneurship Committee roundtable, where they urged the Office of Management and Budget to allow the SBA to lower the subsidy rate for 7(a) loans. This would enable the SBA to reduce its loan fees.

Since fiscal 1992, the U.S. government has overestimated the credit subsidy cost of the 7(a) program by $958 million, according to the General Accounting Office. The subsidy rate is based on average loan default rates since 1986. Critics say this is an inaccurate gauge because default rates have dropped dramatically since 1990.

Instead of covering bad loans, the excess money went to the government's general fund and helped pay for unrelated programs.

"That's a tax on small business," says Anthony Wilkinson, president and CEO of the National Association of Government Guaranteed Lenders, a trade association representing SBA lenders.

OMB, however, says the subsidy rate cannot be changed this year because the Federal Credit Reform Act forces agencies like the SBA to follow the assumptions included in the president's budget.

Sean O'Keefe, deputy director of OMB, says the agency will change the credit subsidy rate for fiscal 2003 by giving more weight to loans made by preferred lenders, which account for 60 percent of all 7(a) loans and have much lower default rates. In fiscal 2004, the SBA will adopt an econometric model to predict loan performance.

OMB's decision disappointed the Senate Small Business and Entrepreneurship Committee and SBA lenders.

Brocato thinks the SBA "could have supported lenders more than they did" at the roundtable. "We're the ones who do all the work and put out the money," he says. "Without the lenders, there is no SBA."

While small-business lending as a whole typically declines during downturns, SBA lending usually is counter-cyclical. Since Sept. 11, for example, the SBA has approved more 7(a) loans than it did during the same period a year ago.

While 7(a) lending was down for fiscal 2001 as a whole, most of that decline occurred during the first half of the year. Since the end of July, demand for 7(a) loans has been increasing, says LeAnn Oliver, the SBA's deputy associate administrator for financial assistance.

But Brocato speculates that many of the 7(a) loans that have been approved since the Sept. 11 terrorist attacks were for small businesses that already had completed their loan packages. The impact of the attacks on SBA lending may not show up until the first quarter of 2002, when he expects the number of startups receiving 7(a) loans to drop.

Pending legislation would waive guarantee fees on 7(a) loans for one year as part of a relief package for small businesses hurt by the Sept. 11 attacks.

SBA 7(a) loan program

Continued from page 20

ness & Entrepreneurship Committee, and Sen. Kit Bond (R-Mo.) would waive guarantee fees on 7(a) loans for one year as part of a relief package for small businesses hurt by the Sept. 11 terrorist attacks on America.

"History has taught us that, during an economic downturn, lenders become increasingly reluctant to lend to small businesses," Kerry says. "From our contacts with lenders, we know loan committees decided days after the attacks to clamp down on loans to small businesses."

While small business lending as a whole typically declines during downturns, SBA lending tends to be countercyclical. Since Sept. 11, for example, the SBA has approved more 7(a) loans than it did during the same period a year ago.

SBA 7(A) LOAN VOLUME

FISCAL YEAR	NO. OF LOANS	AMOUNT
2001	42,957	$9.89 billion
2000	43,748	$10.52 billion
1999	43,639	$10.15 billion
1998	45,288	$9.46 billion
1997	42,268	$9.01 billion

Source: Small Business Administration

NERVOUS LENDERS

"With uncertainties creeping up, lenders are getting a little more nervous and want our guarantee," says LeAnn Oliver, the SBA's deputy associate administrator for financial assistance.

While 7(a) lending was down for fiscal 2001 as a whole, most of that decline occurred during the first half of the year. Since the end of July, demand for 7(a) loans has been increasing, Oliver says.

But Brocato speculates that many of the 7(a) loans that have been approved since Sept. 11 were for small businesses that already had completed their loan packages. The impact of the attacks on SBA lending may not show up until the first quarter of 2002, when he expects the number of startups receiving 7(a) loans to drop.

"The real issue is that OMB is charging me and my clients too much money," Brocato says.

Kent Hoover is the Washington bureau chief for American City Business Journals.

125 - 260 MAGAZINE
AUSTIN BUSINESS JOURNAL
Austin, TX

Circ - 5,232
Weekly

DECEMBER 20, 2001

Bacon's

EDITORIAL

SBA program needs boost

In difficult financial times, small businesses need access to program that lenders are shunning

Small business owners everywhere have good reason to be upset by the slowpokes at the federal Office of Management and Budget.

The OMB has been watching the deterioration of the U.S. Small Business Administration's 7(a) loan program for some time now, but says there is nothing that can be done before fiscal 2003.

The problem: High fees associated with the 7(a) program have made the loans less attractive to banks and borrowers alike. Hundreds of banks around the country have dropped out of the program, and loan volume for the program was down 6 percent in the last fiscal year alone.

Look at some Central Texas numbers. According to surveys by the *Austin Business Journal*, the top area lender in the program between October 1999 and September 2000 did \$20.59 million in loans. For the next year in the same time period, the top area lender did only \$9.64 million. In the earlier time period, the top three lenders in the program issued 106 loans. That slipped to 98 loans in 2000-2001.

The fees are intended to guard against defaults but are calculated based on default rates from the late 1980s, during the savings and loan crisis, which hit Texas especially hard. The fees remain in place even though default rates have declined sharply in recent years.

Worse, the 7(a) fees — \$958 million since 1992 — don't even go to cover bad loans. They go into the general government trough to give Congress more money to spend.

In short, they are not really fees at all; they are hidden taxes on emerging growth companies around the country.

SBA Administrator Hector Barreto spoke in Austin in late November explaining the SBA lending programs offered by the government.

When questioned by the Business Journal on the declining interest in the loan program, Barreto said the SBA is working to reduce the time it takes to process loans and educate companies about the program.

Barreto said top to bottom review is underway to determine ways to improve the program. But he could not say when the review would be complete or what areas he had already focused on for improvement.

It was the same type of bureaucratic "someday" answer coming out of the nation's capitol.

OMB is working to lower the fees but says it can't do anything for at least another year.

With the economy in recession and small business in need of capital, we deserve better from our government.

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Providence Business News

FEBRUARY 18 - FEBRUARY 24, 2002 • VOL. 16 NUMBER 44 • © 2002 PROVIDENCE BUSINESS NEWS INC. • www.pbn.com • $1.50

President Bush's budget threatens SBA's loans

Plan would slash program

By Mike Cofias
Staff Writer

In December, Pawtuxet Valley Prescription and Surgical Center Inc. secured a loan for several hundred thousand dollars from the U.S. Small Business Administration.

The Coventry firm, a supplier of pharmacy products, wants to acquire and expand its 24,000-square-foot building so it can broaden its product offerings, according to Leo Blais, its president and chief executive officer.

"Given the economic environment in the Northeast, I don't think we would have been able to execute this (loan) without the SBA," Blais said.

The loan is part of the SBA's 7(a) loan-guaranty program, its flagship-lending program that guarantees loans for small businesses that have trouble finding ... other channels ...

U.S. Small Business Administration

small businesses, guaranteeing $94 million in loans to 961 Rhode Island businesses in fiscal 2001.

But the program's clout could be in serious jeopardy.

President Bush's recent budget proposal would shrink the U.S. SBA's 7(a) program by more than 50 percent – crimping the flow of financing at a time when banks already are tightening credit standards for small businesses.

The situation "could leave an already weak small business sector crippled due to the absence of necessary long-term financing," according to the National Association of Government Guaranteed Lenders (NAGGL), a nonprofit trade association representing SBA lenders.

Under th[illegible] h proposal, the SBA would be able to guarantee $4.8 billion under its 7(a) loan

President's proposals must still undergo Congressional scrutiny

SBA from Page 1

program during fiscal 2003 – down from nearly $10 billion in fiscal 2001. That amount would cover just 40 percent of the projected $12 billion in demand from small businesses in fiscal 2003, which begins Oct. 1.

The shortfall could be devastating to the local SBA 7(a) program, although it is unclear what the exact impact of the Bush budget – if enacted – would be on loan programs in individual states.

"Imagine what will happen if we take more than $50 million out of the lending pool in the state of Rhode Island – we'll be dead in the water," said Mark S. Deion, a Warwick-based small-business advisor and a board member of the Washington, D.C.-based National Small Business United, an advocacy and lobbying group.

"You're going to have everyone self-funding their businesses with credit cards, paying 26 percent interest," Deion said. "What will that do for job development and business expansion?"

Don McQueen, executive vice president of Bank Rhode Island, an SBA-preferred lender, agreed that the cuts could have a sweeping effect on access to capital for small businesses in the state.

"Given that Rhode Island is a small-business state, the reduction of money available with an SBA-guaranteed loan will certainly result in far fewer dollars in the economy, at a time when a lot of companies are struggling," McQueen said. "Businesses need more support, not less."

Mark S. Hayward, district director of the SBA in Rhode Island, said he could not comment on budget matters and referred questions to the SBA's headquarters in Washington, D.C.

The proposed cuts are not set in stone; Congress will outline its own budget in coming months and could earmark more money for the 7(a) program.

"We're going to work with the chairman of the Senate Small Business Committee (U.S. Sen. John Kerry, D-MA) to get the program's funding restored," said Greg McCarthy, a spokesman for U.S. Sen. Jack Reed.

> "We're going to work with the chairman of the Senate Small Business Committee (U.S. Sen. John Kerry, D-MA) to get the program's funding restored."
>
> —Greg McCarthy
> spokesman for
> Sen. Jack Reed

U.S. Rep. Patrick J. Kennedy also expressed concerns over the threat to the 7(a) program. "I am strongly committed to ensuring that this year's SBA budget recognizes the needs of our small businesses," said Kennedy, who sits on the House Appropriations Committee, which is slated to take up the 7(a) funding issue next month.

On its face, the Bush budget appears to boost the SBA budget in fiscal 2003, calling for total spending of $798 million – a 4 percent increase over this fiscal year. Moreover, the administration actually proposes a 9 percent increase in the 7(a) program, up to $85 million.

But a closer look at Bush's budget exposes a glaring problem.

In it, the Office of Management and Budget calls for a sharp increase in the 7(a) program's "subsidy rate," which is used to determine how much money Congress should set aside to deflect the cost of loan defaults charged to the federal government.

Because the OMB inflated that rate for fiscal 2003, it will be more expensive for the SBA to guarantee loans, thus trimming overall loan volume by 50 percent.

"The amount of lending we can buy with guaranteed dollars is basically cut in half," said Mike Stamler, spokesman for the SBA in Washington, D.C. "We're concerned, as is the (Bush) administration."

Stamler said the SBA hopes to work with Congress to roll over any unused 7(a) appropriations from this fiscal year into next year. And he said the SBA would be able to move some prospective 7(a) borrowers into another SBA loan program, known as the 504 program, to help pick up some of the slack.

And, of course, Congress could move to bridge the shortfall with a greater appropriation, Stamler said.

The genesis of the problem may lie in the good intentions of Congress, which last year passed legislation that lowered the fees paid by both lenders and borrowers in the 7(a) program. The move – made partly because lenders have been driven out of the program by high fees – would make it cheaper for participants starting Oct. 1.

But trimming those fees essentially cherry picked funding out of the 7(a) program. To make up for that lost revenue, the OMB increased the subsidy rate.

The appropriation for the 7(a) loan program must be increased from Bush's proposed $85 million to $211 million in order for the SBA to guarantee the expected $12 billion in loan requests for fiscal 2003. NAGGL plans to ask Congressional officials during hearings to appropriate the $211 million.

As of last week – before a House Small Business Committee hearing on the issue, which had been scheduled for Feb. 13 – the matter had garnered little public attention, partly because it has been overshadowed by other elements of the Bush budget. Another reason: The budget does not appear at first glance to cut into the SBA's 7(a) appropriation.

"It's really an arcane issue to understand," said Damon Dozier, director of government and public affairs for National Small Business United. "But when businesses that got loans last year realize they might not be there this year, I'd say that might open a lot of people's eyes."

Mike Colias can be reached via e-mail at colias@pbn.com. ■

Chairman KERRY. Thank you very much, Mr. Wilkinson, I appreciate it.

Mr. Crawford.

STATEMENT OF CHRIS CRAWFORD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES, McLEAN, VIRGINIA

Mr. CRAWFORD. Thank you, Mr. Chairman. I will talk only about the budget and the subsidy right now. I would ask that you review my written statement.

The SBA has proposed an authorization of $4.5 billion for this year and we support that level. However, the annual fee they propose goes from .41 to .425 percent, as you know. Frankly, I am absolutely dumbfounded at that increase in fees and the Administration's attempt to get more cash out of our borrowers, far in excess of the cost of this program.

It is supposed to pay for itself and it does that, and far more.

As you know, we have contributed $400 million in the last 5 years in negative re-estimates back to the U.S. Treasury. I would suggest that that is on a par, if not at a rate in excess of that being contributed by the 7(a) program.

These problems on our budget come from two sources. The first is loan defaults, which you have already addressed in this hearing. Ours are estimated to be 8.3 percent. I have provided you with some graphs[1] and some indications that, in fact, it is far lower than that.

Even the President's own budget indicates that our defaults are only running $60 to $70 million a year and at a $2 billion program level, that is 3.5 percent, not 8.3 percent.

Second, we have serious problems with their collection rates. They are forecasting a collection of 58 cents of every dollar in outstanding loans that default but they are spending 38 cents to collect that 58 cents. Now that is astounding, leaving a net recovery of only 20 cents of every dollar. I find that amazing.

Our subsidy problems have led to inflated fees that have made us nothing more than a Treasury cash cow. We are paying, as I indicated, hundreds of millions of dollars in excess fees back into the Treasury. We strongly object to this situation and we ask this Committee for your help.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Crawford follows:]

[1] Please see graphs located on pages 90–92.

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

504 Loan Guaranty Program
Proposed FY 2003 SBA Budget

Submitted to the

COMMITTEE ON SMALL BUSINESS
&
ENTREPRENEURSHIP

UNITED STATES SENATE

by

Mr. Christopher L. Crawford

Executive Director

National Association of Development Companies
McLean, Virginia

February 27, 2002

The National Association of Development Companies (NADCO) is pleased to provide a statement to the Senate Committee on Small Business & Entrepreneurship concerning the SBA budget proposed by the Administration for FY 2003. NADCO is the trade association for SBA 504 Certified Development Companies (CDCs). We represent 250 CDCs and more than 175 affiliate members, who together provided more than 98% of all SBA 504 financing to small businesses during 2000. NADCO's mission is to serve as the key advocate for the 504 program, and to provide program technical support and professional education to our membership. As the Committee knows, 504's objective is economic development and specifically job creation by funding the expansion of small businesses. No other Federal program can claim to have created almost 1,000,000 jobs[1] as the 504 program has done. This mission is more important today than ever before, with our economy stuck in neutral at best, and in recession at worst.

NADCO would like to thank Chairman Kerry, Senator Bond, and the entire Committee, for continued support of the 504 program and the CDC industry. 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 previous to and during this recession.

We have three objectives in providing this testimony to the Committee. First, NADCO would like to comment on the FY 2003 SBA budget. This includes the Administration's 504 authorization level, as well as the proposed borrower fees and subsidy model assumptions by SBA.

Second, we will comment on several of the management initiatives raised in the Administration's budget. Third, we will address the need for continuing vigilance by this Committee over the fees imposed by the Administration on our borrowers, first mortgage lenders, and CDCs for use of the 504 program.

PROPOSED SBA FY 2003 BUDGET

504 PROGRAM AUTHORIZATION LEVEL

SBA has proposed that the authorization level for the 504 program be set for FY 2003 at $4.5 billion. We support this level of authorization for 504. 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.

The benefits to the country are numerous. New 504 projects provide new jobs in their communities by expanding the land, 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 support this authorization level during this economic recession when every job we create is putting someone back to work.

504 BORROWER FEE INCREASE

For the first time since the program went to zero subsidy in 1996, SBA and OMB is increasing the fee borrowers pay to subsidize the 504 program. This comes at a time when SBA's own re-estimates reveal that 504 is paying hundreds of millions of dollars into the Treasury in excessive fees. The fees are derived from the subsidy model, which is in turn based on several forecasts by SBA and OMB officials. Provided here is a brief review of the major model factors.

1. Loan Default Rate:

The factor with the greatest impact on the subsidy model is the default rate, or loan purchase rate forecasted by SBA. In 1996, SBA projected this rate to be about 19%, although there was virtually no history to support this guesstimate. Since that year, SBA has reduced their annual forecasts by over 50%. Unfortunately, even these large reductions have not led to accurate subsidy cost re-estimates for each loan cohort during the years following the loan funding.

For FY 2003, the 504 loan default rate improves from 8.4% down to 8.3%. Attached to this testimony is chart 1 provided by Bank of New York, the 504 program Trustee bank. This chart reveals two significant items. First, prepayments have recently spiked. More on this below. Second, loan defaults have actually remained fairly constant for the last ten to twelve years. Monthly defaults have generally been well below twenty to twenty-five loans per month for many years. During this time, our annual loan volume has grown from about $400 million to almost $2.5 billion.

Charts 2 and 3 provide a great deal of insight into 504 defaults. Chart 2 plots loan authorizations and defaults by year. It is clear that, with the exception of three years during and immediately following the 1989-1990 recession, the rate of increase of defaults was generally less than the overall increase in loan volume. Even for last year's recession, the rate of increase from 2000 to 2001 for defaults is less than the loan volume increase.

Chart 3 shows three factors that further clarify actual 504 defaults. Shown is the dollar volume of actual loan defaults by calendar year (see left side scale), from 1986 through 2001. Also shown (see right side scale) is the PERCENTAGE of annual defaults for each year of 504 loans. This is the portion of authorized loans that default each calendar year, and is somewhat different from SBA's data, which is based on fiscal year.

Finally, Chart 3 plots a polynomial equation curve fit for the history of percentage of 504 defaults. This is the mathematical equation that best fits the default percentage data on Chart 3. It is clear that the average percentage of defaults is at or below 4 – 4.5% since the recession years of 1989 – 1991. Even during and just after that recession, 504 defaults did not exceed 5%.

Further supporting our concern about the accuracy of SBA's default forecast is the President's own budget figures. On page 49 of the SBA Budget Request and Performance Plan is the following statement: ***"Defaults amount to about $60 – 70M annually".*** This statement agrees with our chart that 504 loan defaults have been very consistent for a number of years. At a rate of $2.5 billion in annual loans, this amounts to <u>less than a 5% default rate</u>. We ask the Committee to request reconciliation of this figure with the budget's forecasted factor of 8.3%.

2. 504 Loan Currency Rate:

SBA forecasts that 504's loan portfolio currency rate will decline from 98.5% to 95.5%. Given that last year saw the peak of this recession, we should expect the 2003 loans to improve, rather than decline in their currency rate. With virtually all 504 loans being for real estate, we cannot identify any reason why loans with such collateral would suffer any decline in their currency rate while SBA's forecasts for working capital loans maintain a constant level of currency. Our experience with business real estate loans is that these are the absolute last debt a business owner fails to pay. The owner knows that a default on his business property essentially drives his business to a complete failure when he is thrown out of his property by lenders. Most business owners pay their business property loans even before their home mortgages. We seek further clarification from SBA on this unusual forecast.

3. Loan Prepayment Rate:

SBA's forecast of the loan prepayment rate mysteriously increased following FY 2000 from 33% to 51% for FY 2002, and continues to be about 50% for FY 2003. This appears far too high, based on actual history of our portfolio. Obviously, when prevailing private rates are low (as now) there will be some prepayments of older 504 loans that have higher interest rates than available today. However, the loans that are now prepaying were funded in previous years, and thus not counted for this prepayment forecast. It is clear that 504 prepayments have spiked during the last year, as existing borrowers appear to be re-financing and leaving the 504 loans they took out years ago for lower interest rates in the private markets.

The FY 2003 subsidy model should forecast the EXPECTED rate of prepayments for this fiscal year of loans. The 504 debentures that fund our loans are being sold at historic low interest rates. Recent sales have been at rates below 6%. With no expected increase in long term rates for the near future, we do not believe that small business borrowers will find lower rates from the private markets, and decide to refinance their 504 loans in the next several years. Therefore, it is not likely the 2003 loan cohort will see a high level of prepayments. Thus, we disagree with SBA's assumption of a prepayment rate of 50% for FY 2003. We ask the Committee to obtain detailed information about this forecast, and compare it with recent historical trends of our actual portfolio prepayments as recorded by our Trustee bank.

4. Loan Recovery Rate:

SBA's forecast of their recoveries on defaulted loan collateral again declines – to an abysmal 20% from last year's 26.9%. We cannot understand this forecast, given the clear results of two on-going SBA programs that provide virtually all recoveries for 504 defaults. One program, the Congressionally-mandated 504 liquidation program, has had very positive results. With virtually all loans accounted for, the average recovery rate for both CDC and SBA staffed efforts has easily exceeded 50% of the outstanding 504 loan balance. This recovery level was achieved for both the CDC-liquidated loans and those liquidated by SBA's own staff.

The other program, the SBA asset sale program, has resulted in a sale of 872 loans for over $170 million. Again, the recovery rate has been over 50%. Even the Administration's own budget proposal notes that **"the Agency implemented a highly successful asset sale program and will continue to strategically sell our loan portfolio."** Frankly, if a 20% net recovery is the definition

of highly successful, SBA should seriously consider allowing more private lenders and CDCs to perform the recovery process. 20% recovery just doesn't cut it.

The budget shows that the major reasons for continued decline in the net recovery rate are high collection expenses on the part of the agency. Each of the above initiatives – the CDC liquidation program and the asset sale program – should see very few direct SBA expenses. CDCs doing the 504 default recoveries are shouldering their collection costs. The asset sales should reduce liquidation and recovery costs for SBA, given that few staff are involved in sales and no servicing is needed for the loans being sold. Yet, it appears from budget assumptions that SBA's forecast of collection expenses remains extraordinarily high – almost 40% of the loan balances. It seems that either SBA's costs are out of control, or their new accounting system has not figured out which costs to allocate to the asset sales. Given the apparent successes of these two programs, we cannot understand how the overall recovery rate would continue its decline. We believe the Committee should seek detailed and independently verifiable information on the asset sales and the SBA loan recovery expenditures.

Additionally, during a recent budget review meeting with SBA, we learned that SBA collection forecasts do not include proceeds from secondary notes by loan guarantors, or notes from new buyers of foreclosed 504 assets. SBA did not provide any data on the number or total value of these notes that they now own. However, we believe that many 504 defaults result in either a sale of the real estate, with SBA taking back a note, or perhaps one of the original borrowers providing a new note to SBA based on his personal guaranty of the original 504 note. It would appear that the program subsidy model is counting as a total loss the payoff by SBA of the 504 debenture, but giving the program no credit for many recoveries that involve notes receivable. This is clearly lowering the overall recovery rate and increasing the future borrower fees for no reason. We ask the Committee to investigate this procedure, and correct it as quickly as possible. This should be done even for the FY 2003 budget model.

SBA MANAGEMENT INITIATIVES

Strategy #2: Manage Human Capital More Strategically

We support the need for this management strategy. With loan volume growth continuing even as SBA staff shrinks, SBA must "work smarter, not harder." There will simply not be enough field staff to perform all the loan underwriting, authorization, closing, servicing, and liquidation functions required of a $50 billion loan portfolio. The agency's existing PLP and PCLP programs point the way to the future; off-load work better done by others, and allowing SBA staff to perform quality lender oversight. You don't see the OCC performing individual loan underwriting and servicing actions, but everyone certainly thinks the banking industry is well regulated through OCC's audit and control functions. Perhaps SBA should emulate the OCC. Additionally, SBA's plan to expand centralization of many repetitive actions that require unique expertise is a very positive move. This has proven to be successful in the two loan servicing centers now in operation. These specialized staffs are able to increase productivity and reduce costs, while actually providing improved service to lenders and borrowers.

There is also increased focus on staff training. We endorse this objective, and hope it goes beyond only generic management or leadership training. With retirements by many senior field office staff, there appears to be declining expertise in the core lending and servicing skills needed to

oversee SBA's programs. For a number of years, SBA staff participated in lending industry training, including NADCO's, to learn the same skills we teach our own industry members. We are encouraged that SBA may again focus on staff training, and suggest that the agency work with lender industry groups who provide cost-effective program training to their members. This method may be less costly than creating their own training programs on basic finance, credit, and lending.

Strategy #3: Improve Financial Management Information
Strategy #6: Improve Credit Program Management

We support the need for these objectives. The Loan Monitoring System actually began nearly five years ago as a joint review of the 504 program operations by SBA and CDC staffs. As I have observed this system development over the years, it has stopped and started several times – each time with different contractors who knew little or nothing about SBA lending programs, yet were expected to design systems to automate highly sophisticated lending and servicing procedures. This project appears to have made little or no progress, while burning through millions of taxpayer dollars. It should be "reconstituted" as stated by the Administrator, and should take advantage of the knowledge and skills of the lender industries that it will provide information both to and about. At this time, it does not appear that the agency has either the data processing or loan portfolio management skills to plan, design, or develop this system in-house.

We support the implementation of the Congressionally mandated liquidation authority for qualified CDCs. Long-standing Members of this Committee may recall that the liquidation pilot was actually our industry's idea to improve loan recoveries. Further, our member CDCs agreed to absorb the costs of liquidation and workout efforts due to agency budget shortfalls. The recently completed liquidation pilot dispelled the notion that numerous experienced CDCs might not be able to perform adequate loan recoveries. This pilot has been a sterling success through the joint efforts of talented SBA staff and many CDCs. Given SBA's forecast that their own recovery efforts may yield only a paltry 20%, it might be best for everyone if privatization of 504 loan recovery efforts was accelerated, rather than rely on the loan asset sales.

Increased Use of 504 For Larger Real Estate Loans

In order to stretch the appropriation for the 7(a) loan program, SBA indicates it may consider a forced shift of some real estate loans now done under 7(a) to the 504 program. We support efforts to increase awareness and use of the 504 program. We are also committed to ensuring that the program is being delivered throughout the U. S. through local CDCs. While SBA's proposal might appear to be a quick fix, there are a number of reasons why this may not work to the benefit of SBA's small business borrowers. Many projects financed under 7(a) simply won't qualify under current law or regulations for 504 loans. Among the reasons are:

- 504 cannot be used to refinance an existing permanent loan.
- 504 cannot normally be used for projects less than $100,000.
- 504 cannot be used if the borrower needs a term of less than ten years, or if a variable interest rate is best for the borrower.
- 504 cannot easily be used for a "mixed use" project, where the borrower also needs financing for working capital, inventory, receivables, or fixtures.
- Most importantly, 504 loans are for economic development, and have a strict job creation and retention requirement. Many 7(a) projects do not meet this standard.

Surmounting these restrictions would clearly require new legislation to modify Congressional intent for 504. Further, major regulatory and SOP revisions would be required of the agency. These would likely consume much of this and the next session of Congress, and much of the Administration's management time. It would also require substantial discussions with the lender industries to achieve any consensus on legislation or regulations. It does not appear that this proposal could be a short term fix for any 7(a) budget shortfall.

504 SUBSIDY: THE NEED FOR VIGILANCE

SBA's proposed FY 2003 budget increases the annual fee charged each 504 small business borrower from 0.410% to 0.425%. We are shocked and dismayed at this increase, in light of our understanding of the portfolio's performance and the success of key new liquidation initiatives.

While a relatively small increase in user cost, this change appears to herald a new and totally unjustified concern by the Administration about the performance of our 504 loan portfolio. We find this surprising. The most important subsidy model factor is loan defaults. In the SBA model, defaults actually are forecasted to decline.

As noted above, this is not a true "subsidy" model, but actually a cost model. There is no Congressional appropriation that provides a 504 subsidy. The fees paid by borrowers, our CDCs, and even our first mortgage lenders offset completely the program operating expenses and loan losses. Thus, this is a free program for the taxpayer.

Further, it is, in fact a cash cow, given that it is providing excess fees back to the Treasury. SBA's own re-estimates for this year demonstrate that 504 will have returned almost $400 million in excess borrower fees during the last five years.

We question how the agency can decide to increase the borrower fees when borrowers are actually providing hundreds of millions of dollars to the Federal government. The borrowers who use this program, and the CDCs and first mortgage lenders who pay additional fees to support the program, deserve to understand how the fees are calculated that they are being required by the agency to pay to the Federal Treasury.

In reviewing SBA's and OMB's program re-estimates last year, it was clear that 504 had gone the same way as the 7(a) program: we are now in "negative subsidy". That is, we were paying more into the Federal Treasury in borrower and user fees than the program actually is projected to cost. We believe this to be nothing less than an unauthorized tax on America's small businesses.

Data from SBA's budget reveals the following re-estimates by year:

- FY 1999: $13.032 million paid in excess fees to Treasury
- FY 2000: $9.676 million "
- FY 2001: $105.186 million "
- FY 2002: $180.143 million "
- FY 2003: $88.672 million "
- **Total 5 years: $396.709 million paid in excess fees to Treasury**

When SBA and OMB overestimate the true cost of our program, this is no longer a bureaucratic funny-money budget exercise. The result is real fees paid by real borrowers in real money to the U. S. Treasury. Six year ago, SBA "guesstimated" that the 504 default rate was 19%. There was absolutely no historical data to support this figure. With no appropriation, this led to our small business borrowers having to pay new and incredibly expensive program fees. Those borrowers from 1997 will be paying these fees in every loan payment every year for the entire twenty years of their 504 loans. While SBA can "re-estimate" its projections to correct future program forecasts, our existing borrowers will still pay the inflated fees from the old SBA program cost models. There is no correction provided to loans already in the portfolio.

The SBA-OMB 504 subsidy model results have been very inconsistent with our analysis of historical portfolio performance. Last year, OMB and SBA provided this Committee with projections of 504 defaults under a plan to reduce the reliance on very old and generally incomplete loan data. That is, SBA was considering shortening the "look back" period for our subsidy model. When finally given access to the results of their forecasts, we were quite surprised to find that they were very close to historical actual figures. We are puzzled about SBA and OMB's unwillingness to move to utilization of model interpretation that so clearly correlates with true history.

For example, the SBA-projected default rate for 504 dropped from about 11% to under 5% just by going to a shorter look-back period. This appeared to be very close to the 4+% that the program has achieved since its creation in 1986. We recognize that many of our loans are still "young" and future defaults can be expected. However, even SBA's own analysis has shown that the vast majority of defaults occur in the first four or five years of a loan pool. However, instead of correcting its model to better reflect the program's history, SBA is now considering a move to a totally new model: the Econometric Model, which has been discussed for several years.

Our industry is concerned that changing the model may provide no more accurate subsidy and borrower fee forecasts than the old model. In fact, we have never argued over the model structure, which is just a bunch of mathematical formulas set up in a giant financial spreadsheet. Our concerns center on how SBA and OMB look at our portfolio performance historical data, and come up with the forecasts they do. Thus, we believe they have a data interpretation issue, not a financial model structure issue.

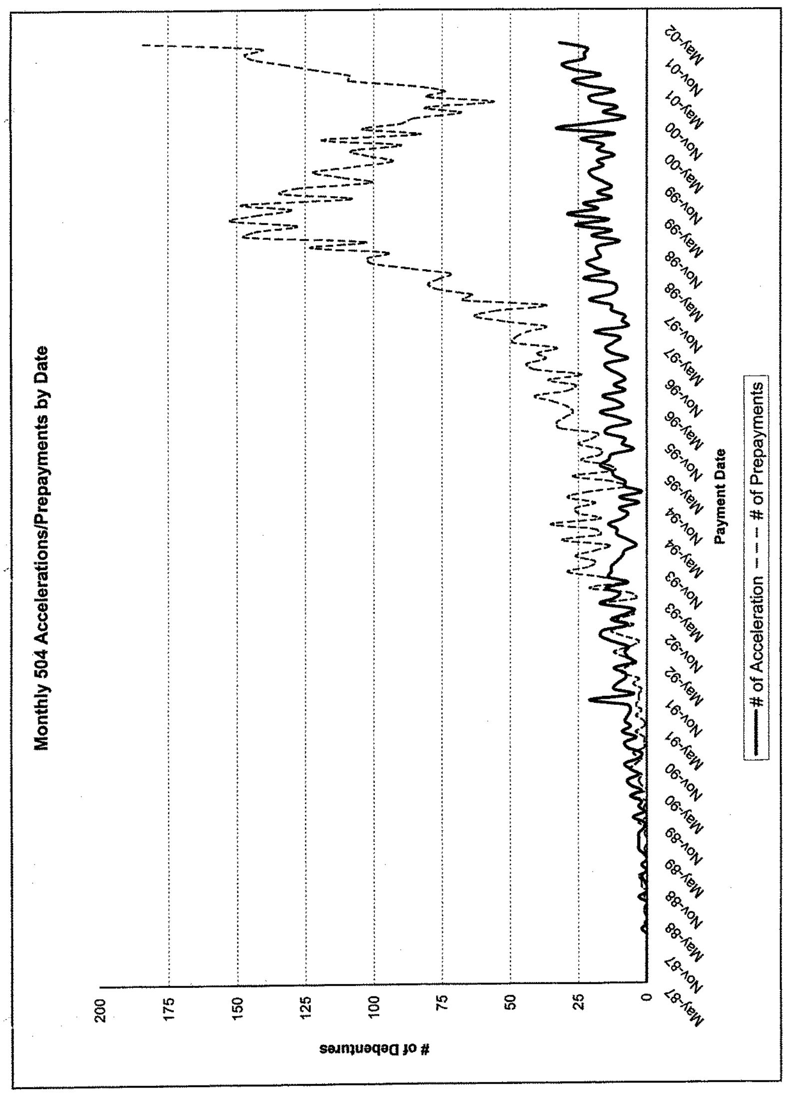
We do not understand how changing the model is going to improve their track record of poor default, recovery, and prepayment forecasting, as demonstrated by the huge "negative subsidy" generated over the past five years. What this action will do is "re-set the game clock"; that is, they will now have five more years to demonstrate that they may eventually get a model that might provide accurate forecasts of our portfolio performance. Until they get it right, or until this Committee is finally fed up with these moving targets and misinformation, our 504 borrowers will continue to pay what we believe to be grossly inflated user fees. Assuming our program remains in "negative subsidy", these fees will continue to flow to the U. S. Treasury Department. As has been the case for the 7(a) program for years, these excessive fees will continue to amount to an unauthorized tax on our borrowers.

Our industry strongly objects to this situation. We ask the Committee get to the bottom of the Administration's gyrating program statistics, as Treasury- Postal Appropriations directed OMB in its Conference Report last year. We ask for a true determination of whether 504 is in "negative subsidy" and simply turning over excess fees to the Treasury. If this is the case, we ask this Committee and the Congress to initiate legislative steps to halt this practice. This may require that

the Congress legislate our program's fees or place caps on these fees that are based on true program historical performance.

SUMMARY

Thank you for allowing NADCO to provide comments on the 504 subsidy model. CDCs are major stakeholders in the 504 program and want to do everything we can to ensure its long term viability. Even though we are at zero subsidy with no appropriation, we consider the program cost model factors to be a very serious matter. Our industry would like to work closely with the Committee to get to the bottom of the forecasting problems in our subsidy models, as revealed by the huge re-estimates calculated by SBA's own staff. We ask that the Committee request further analysis of our subsidy model by the General Accounting Office as soon as possible.



Monthly 504 Accelerations/Prepayments by Date
# of Debentures
200
175
150
125
100
75
50
25
0
May-87
Nov-87
May-88
Nov-88
May-89
Nov-89
May-90
Nov-90
May-91
Nov-91
May-92
Nov-92
May-93
Nov-93
May-94
Nov-94
May-95
Nov-95
May-96
Nov-96
May-97
Nov-97
May-98
Nov-98
May-99
Nov-99
May-00
Nov-00
May-01
Nov-01
May-02
Payment Date
# of Acceleration
# of Prepayments

CHART 1

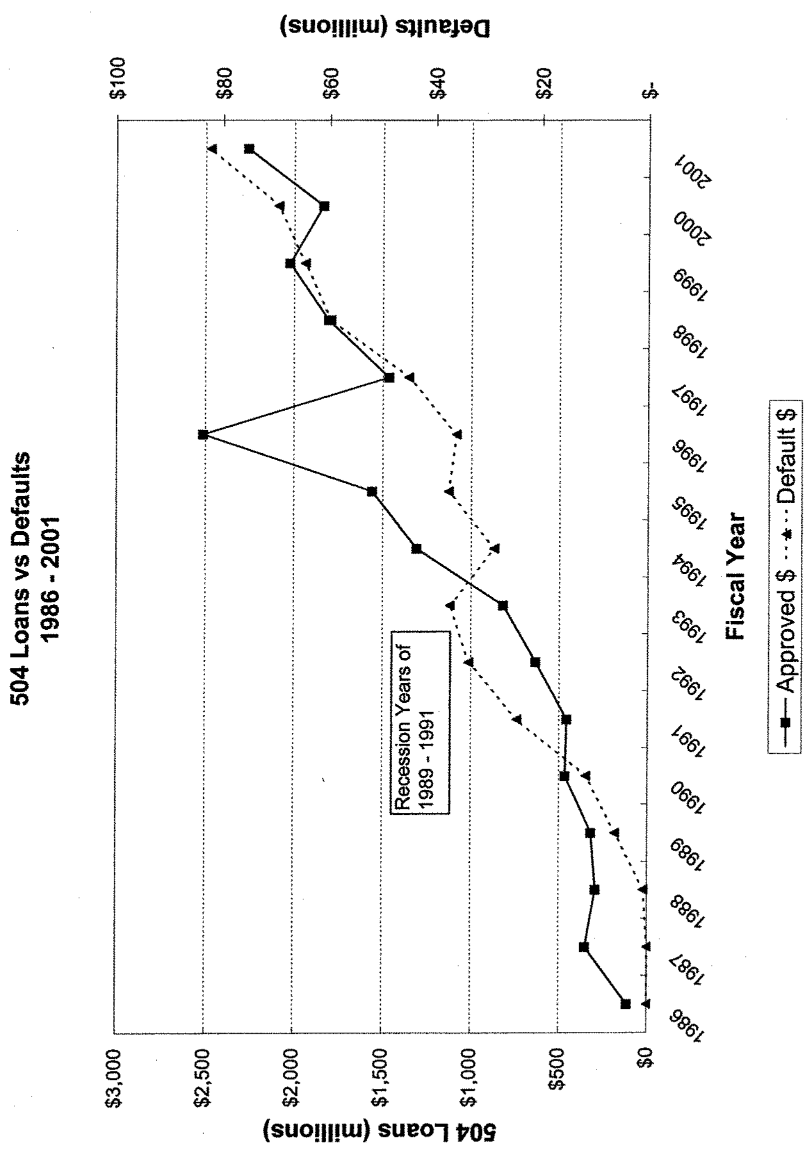
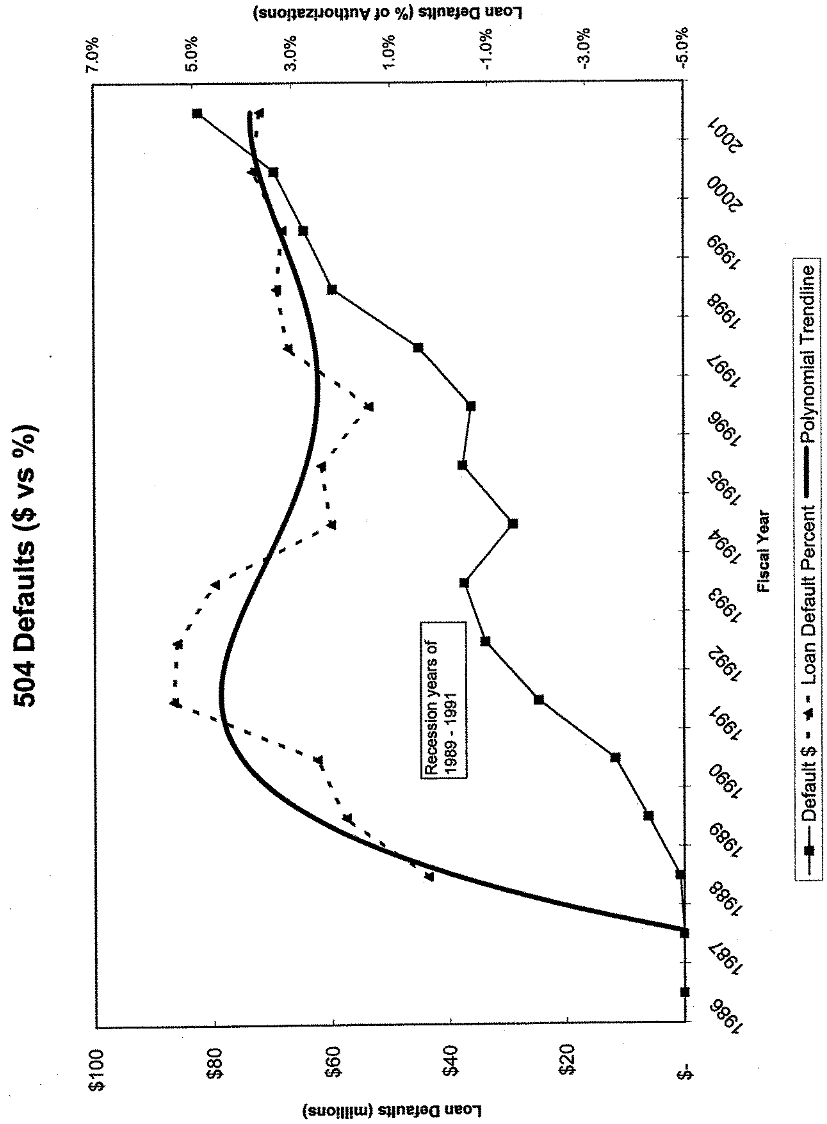

504 Loans vs Defaults
1986 - 2001
Defaults (millions)
$100
$80
$60
$40
$20
$-
504 Loans (millions)
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
Recession Years of
1989 - 1991
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Fiscal Year
Approved $
Default $

CHART 2



504 Defaults ($ vs %)
Loan Defaults (millions)
$100
$80
$60
$40
$20
$-
Loan Defaults (% of Authorizations)
7.0%
5.0%
3.0%
1.0%
-1.0%
-3.0%
-5.0%
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Fiscal Year
Recession years of 1989 - 1991
Default $
Loan Default Percent
Polynomial Trendline

CHART 3

Chairman KERRY. That is an important couple of issues you brought up and I appreciate it very, very much. Thank you.

Mr. Corbet, thanks for being back again.

STATEMENT OF ALAN CORBET, EXECUTIVE DIRECTOR, THE GROWTH OPPORTUNITY CONNECTION, KANSAS CITY, MISSOURI

Mr. CORBET. Thank you, Mr. Chairman and Members of the Committee. I am not going to read all my testimony, it has been submitted to the record.

But I did want to say what my role is today. It is very simple, that we need to provide the reason the Microloan program must be funded at the levels that we proposed to OMB, $35 million for direct loans and $35 million for technical assistance grants or TA grants.

It is important that you understand the Microloan program. Let us talk about the direct loan side. The program was created in 1991 to help small business owners access capital because the banking community was not willing to make these types of loans. As a former banker, that is exactly right. Banks will not make these types of loans. They are too expensive. They are too costly.

Which brings us to the TA side and why it is so critical that we have that to support the program. The program basically works this way. The Federal Government makes loans to the non-profit lenders who in turn make small loans to those entrepreneurs that are really not bankable. Our job is to provide the banks a customer later in time that can then become a viable commercial customer.

What are we doing with these loans? We are making the loans to individuals that are in the start up or early stage. They typically are five or fewer employees. As you know, our loans, the maximum is $35,000.

I have provided a couple of examples in our testimony of why we are able to help the very small business owners work and why this program is so successful.

The intensive training, technical training, and small loans that we provide to these small businesses create business success. The Microloan programs across the country report that 85 percent of the businesses that we make loans to are still in operation 2 years later, which is a complete reversal of the traditional statistics that we read about.

Critical to the program's success, obviously, is the intensive technical assistance that we provide. Do not confuse the technical assistance that this program provides with those of PRIME, the SBA Women's Business Centers, Small Business Development Centers or SCORE programs. The Microloan program provides TA, and in fact the majority of our TA must be provided to post-loan activities, which is obviously why we have the success that we do.

The TA that has been provided to microlenders and their clients has provided the results that we see today. Over 14,000 loans have been made totaling over $160 million since the program began. That is just under $12,000 per loan. That is the exact point, that no banker will make that kind of loan because they cannot make any money at it. That is why the TA is critical.

I think the most important statistic is that over 14,000 jobs have been created out of this program that we would not have seen otherwise for small business.

During fiscal year 2001 alone, over $32 million in new loans went out. Of that money, 52 percent went to minority-owned businesses, 45 percent to women, and 8 percent to veteran-owned businesses, the exact target market that we have.

The technical assistance resources are key to the program and why we have experienced such a low loss rate, despite the many high risk loans that we are able to make.

In fiscal year 2002, Congress approved $17.7 million for technical assistance. This represented a $2.5 million cut from our program. The TA grants are calculated as a percentage of what we owe the Government. Because the program has thrived, growing to over $112 million in debt to the Federal Government today, this represented a 40 percent cut to our budgets.

Segments of this has been severely curtailed and actually several organizations will probably be forced to lay off staff this year. The importance of the TA, up to $35 million this year, is very critical.

The present budget, again, for this year calls for $17.7 million for TA. This just is not enough money to provide the services that we do. Let us do the math. At the end of 2001 there was $112 million in debt. To provide 25 percent technical assistance grants, that is only $28 million. There is an additional $23 million approved that will most likely be made this year to Microloan borrowers, which brings us up to about $35 million. That is just to get through the following year.

So what does this all mean? We have to have your support for the $35 million for TA grants as well as $35 million for direct loans so that we can maintain the Microloan program and keep it healthy. Without it, the Federal Government's current $112 million investment into these intermediaries is at risk if the borrowers do not receive this TA.

We know that at least one intermediary plans to get out of the program, return their capital to SBA. Their reason is the program is too high of a risk to continue the program. At the current levels, that is exactly what will continue to happen. If funding levels proposed in the present budget is enacted, the future of this program is absolutely in jeopardy. So on behalf of the Nation's smallest businesses, we ask that you support $35 million in direct loans and $35 million in TA.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Corbet follows:]

Alan B. Corbet
Executive Director
Growth Opportunity Connection, Inc.
Kansas City, Missouri

February 27, 2002

U.S. Senate Small Business Committee
Washington D.C.
Written testimony on the
U.S. Small Business Administration's Microloan Program

Thank you Mr. Chairman and members of the Committee for the opportunity to present testimony on this important matter. I am the Chairman of the National Association of SBA Microloan Intermediaries (NASMI) as well as the Executive Director of Growth Opportunity Connection (GO Connection) in Kansas City, Missouri where we operate as a Microloan Intermediary lender and Women's Business Center. Our local territory includes metropolitan Kansas City including areas in Kansas and Missouri. In my role as national Chairman of NASMI, I represent the interest of Microlenders across the nation.

I have over 20 years in the banking industry with the last five years developing and assisting in small business development, job creation, access to markets, and entrepreneurship training. My role today is very simple. I am going to provide you with the reason the Microloan program must be funded at the levels we have proposed to OMB. $35 million for direct loans and $35 million for technical assistance grants.

It is very important that you understand the difference between loan capital and technical assistance for the microloan program. Lets first talk about the direct loans. The SBA's Microloan Program was created in 1991 to help small business owners access capital because the banking community was not making small commercial loans. This program started with 35 intermediaries as a demonstration project. Today, this is a permanent program with 165 intermediaries in 46 states.

The program basically works this way. The federal government, through the SBA, makes loans to non-profit Intermediary lenders who, in turn, make very small loans to micro-entrepreneurs who are qualified, but not yet "bankable". The business owners are either inexperienced with credit, lack assets for collateral, or need on-going management assistance. We are not competitors of banks; in fact the banking community depends on us to develop our clients into their future commercial customers.

The loan made to the Intermediaries by the federal government is money well invested. These are loans that must be paid back. In fact, they are being

paid back. The loans are on a 10-year terms. To reduce the risk to the federal government, all Intermediaries must provide a 15% cash match from local sources for the amount we borrow from the SBA. The funds are used to establish a loan loss reserve prior to obtaining any loan. The match must be in the form of cash – no substitute.

But a very important point is what we are doing with these loans from the federal government. Well, we are making loans to individuals that are in the start-up and early stage of business ownership, and we are providing technical assistance to our borrowers to ensure repayment back to the federal government.

Micro enterprises are generally businesses with five or fewer employees. Microloans are loans of $35,000 or less for working capital and/or equipment. Conventional sources of business credit are often beyond the reach of micro entrepreneurs. This may be because the business has not been in existence long enough to qualify for financing or maybe because the business does not have traditional collateral. Whatever the case, micro entrepreneurs need training and technical assistance in areas such as financial management, bookkeeping and marketing. The SBA Microloan Program meets these capital and training needs with a unique combination of loans and technical assistance.

As an example, Janet Byers and her daycare business, Ready, Set, Go, Inc., is a prime example of the Microloan Program's services impact. Janet came to the Microloan Program in 1998. At that time, she was in need of financing to expand her small daycare to include transportation for the little ones. Since 1998, Janet has utilized multiple GO Connection classes, one-on-one consulting sessions, and qualified for two Microloans. Janet has, with GO Connection's assistance, used her drive and determination to build Ready, Set, Go by leaps and bounds. The company now has two locations in South Kansas City, employs more than 20 caregivers, and provides childcare for more than 150 Kansas City children. The economic impact is quite grand for Janet. In fact, she expects to reach $1 million in revenues during 2002.

Colleen and Tom Ray purchased a Christmas Tree Farm in Eveleth, Minnesota 5 years ago. Tom Ray is a part-time furniture maker, with a Veteran's Disability pension. Colleen Ray was a part time waitress. They had an idea to expand Ray Family Farms by making decorative wreathes out of dried twigs, using natural materials like pussy willows. They successfully test marketed the wreathes through local craft shows and gift shops. A $5,000 loan in December 2000 from the Northeast Entrepreneur Fund financed their participation in the Atlanta International Gift and Home Furnishing Market. The show produced $26,593 in wreath sales. They hired two employees. An additional loan last May for $5,600 purchased dried twigs from local suppliers rather than the Ray's continuing to harvest their own raw materials and helped them further expand their operation.

These are two examples of why this program works. The intensive training, technical assistance, and small loans provided by Microloan Intermediaries to new, emerging and vulnerable businesses increases the potential for business success. Many microenterprise development programs report business survival rates at or above 85% still operating 2 years after receiving assistance. Reverse of traditional business survival statistics.

Critical to the program's success is the integral role played by intensive technical assistance that Microloan intermediaries provide to their borrowers. Now, do not confuse the technical assistance provided to this program with that of PRIME, another program administered by SBA. I am not going to speak about PRIME as Bill Edwards; Executive Director of the Association of Enterprise Opportunity (AEO) has explained the PRIME funding need in his written testimony that you should have been provided today. My organization is a member of AEO and we support their position.

Additionally, sometimes the technical assistance grants received by the SBA Women's Business Center, the SBA Small Business Development Center and SBA SCORE programs are also confused as duplicative. But you must understand that Microloan Intermediary lenders are required to spend the majority of their funds for post-loan activities.

The technical assistance provided by Microlenders to their clients is the reason this program provides the results it does. To date, 14,355 loans totaling $160,250,729.54 have been made to small business owners through this program. That averages to $11,163.41 per loan. These small loans support the economic vitality of families and the communities you represent. Without this program, jobs would not have been created for the underserved communities of America.

During fiscal year 2001 alone, Microloan Intermediaries made over 2,400 microloans totaling $32,326,144. Of those millions of dollars lent, about 52 percent went to minority business owners, 45 percent to women, and eight percent to veteran-owned businesses.

As mentioned earlier, the success of the payback of these loans to the federal government is tied directly to the technical assistance that is provided to these struggling business owners. Technical assistance resources are the key reason that the Program has experienced a low loss rate despite the many high-risk loans that we are able to make.

For fiscal year 2002, Congress approved $17.5 million for technical assistance for this program. This represented a $2.5 million cut in funding from the prior year, a 12.5% reduction. That however has not been the true impact on the provision of services. Technical assistance grants are calculated as a

percentage of outstanding loans for Intermediaries. Because the program has thrived, growing to over $112 million in loans outstanding to Microloan Intermediaries at the end of FY2001, technical assistance grants to Intermediaries were cut for FY2002 by 40%. Technical assistance has been severely curtailed and several organizations will be forced to lay off staff. Only an appropriation of $35 million for technical assistance will allow the SBA to return funding to its FY 2001 levels by providing 25% of outstanding loans.

The President's budget calls for $17.5 million for technical assistance for FY2003. This isn't enough money to maintain even the current, reduced level of funding. Let's do the math. At the end of FY2001, Intermediaries owed the SBA Microloan program $112 million. To provide 25% technical assistance grants to Intermediaries the SBA needs $28 million--to just serve current loans.

We have not yet talked about program growth. As the demand for the Microloan program continues to grow—if we can continue to grow it—the investment in technical assistance dollars will continue to increase each year.

So, what is the bottom line? $28 million will return technical assistance funding to former levels of 25%, without new loans to Intermediaries and program growth. In 1996, funding levels were cut. The SBA indicated at that time that they knew funding levels for technical assistance below 20% put the program at risk. We have yet to determine the impact of the current funding cut.

The President's budget seeks $26 million in new loans.

So what does this all mean? We ask you support for $35 million for technical assistance grants and $35 million for direct loans to the intermediaries to maintain the SBA Microloan Program and keep it healthy.

- Without it, the Federal government's current $112 million investment in the Intermediaries is at risk if borrowers do not receive technical assistance.
- We know that at least one Intermediary plans to return their loan capital and pay off loans early. Their reason is that the program risk is too high to continue under the present funding levels.

If funding levels proposed in the President's budget is enacted the future of the Microloan program is in jeopardy.

On behalf of our nation's smallest businesses, we ask your support. .

Thank you.

Chairman KERRY. Thank you very much, Mr. Corbet.
Ms. Zinn.

STATEMENT OF AMANDA ZINN, CHIEF EXECUTIVE OFFICER, WOMEN ENTREPRENEURS OF BALTIMORE, BALTIMORE, MARYLAND

Ms. ZINN. Thank you, Mr. Chairman.

I am here today representing not only my own organization, Women Entrepreneurs of Baltimore, but I also serve on the board of the Association of Women's Business Centers; I am the chair of the Microenterprise Council of Maryland, which is a State-wide microenterprise association; and I am also a member of the Association of Enterprise Opportunity.

I would like to specifically talk about two SBA programs today, the Women's Business Center Programs and the PRIME program. My organization, WEB, is an awardee of both the OWBO, Office of Women's Business Ownership, the Women's Business Center program, as well as the PRIME program.

We are asking for the $14.5 million to be funded in the Women's Business Center. There are several reasons for that. The first and foremost is that women-owned business is the fastest growing sector of all small businesses in this country. There are 6.2 million businesses employing 9.2 million people with $1.15 trillion in sales.

In addition to the numbers and the growth of women-owned businesses, there recently has been a study that was published in the Global Entrepreneurship Monitor that compared the GNP of industrialized nations, looking at the factors about why the GNP was different in all of these different industrialized nations. Their finding was that entrepreneurship was the main reasons. The factors among entrepreneurship were that women and minorities in particular were really the driving force in entrepreneurship.

So we are citing these global studies that are really pointing to the importance of the continued growth and the importance in terms of the economy that the women-owned businesses are making, as well as minority-owned businesses.

So having said all of that, the $12 million that has been proposed for the Women's Business Center program is insufficient in that, combined with the current legislation, it simply will not fund all of the existing centers, all of the sustainability centers, and new centers. We feel it is very important for all three of those different entities within the Women's Business Center to be funded, because the sustainability centers in particular are the ones that mentor the new centers and are really the ones that have a track record, are proven successful, and also mentor the new centers that are coming on. Twelve million dollars will not fund all of those centers. Only the $14.5 million will do that.

In terms of the PRIME program there has been, I understand, a lot of people think that there is a duplication of services. These services are not at all duplicated. The fact is that there is a vast sea of entrepreneurs out there and they are all representing different markets and they all have different needs.

The PRIME program is for technical assistance specifically for very low-income people. Ninety percent of the 3- to 4-million microentrepreneurs in this country are non-borrowers, so the Microloan

technical assistance program is not meeting the needs of those people. They have very specific needs as microentrepreneurs. They need incredibly intensive services.

My organization offers a 108-hour business skills training course, to teach the low-income microentrepreneurs to start and be successful in business. The SBDCs and the other programs are not that intensive and do not meet those needs.

So I would strongly suggest that, as a person who is on the ground floor, and who is working with and understands the needs of both women and very low-income microentrepreneurs, these programs are very different. They are definitely serving different needs, different market niches, and are extremely important.

The President has zeroed out the PRIME funding in his budget and we request that the $15 million, which is the full authorized level, be supported to meet the needs of all of the microentrepreneurs in this country.

The other thing that the PRIME program does that no other program does is provide capacity building for the microenterprise development practitioners that are helping to start, stabilize, and expand the businesses, as well as doing very important research on the success of these businesses and what they need. So these funds are very much needed.

Thank you very much.

[The prepared statement of Ms. Zinn follows:]

Written Testimony for the Senate Small Business Committee
Amanda C. Zinn, Chief Executive Officer
Women Entrepreneurs of Baltimore, Inc. (WEB)
Wednesday, February 27, 2002

Mr. Chairman and members of the Committee, thank you for the opportunity to present you with this important testimony. My name is Amanda Zinn. I am the Chief Executive Officer of Women Entrepreneurs of Baltimore, Inc. (WEB), the Chair of the Microenterprise Council of Maryland (a Statewide Microenterprise Association or "SMA"), a Board/Executive Committee member of the Association of Women's Business Centers, and a member of the Association of Enterprise Opportunity (AEO).

I have over 20 years experience working in business and community economic development. As the CEO of WEB, I am responsible for a 17+ staff member nonprofit organization established 12 years ago to assist economically disadvantaged women become self-sufficient through entrepreneurship. Our program has expanded over the years to include both men and women from many different income levels and from all across the State of Maryland (despite our name). However, our target market remains low-income women.

WEB has enjoyed much success and an excellent reputation in the local, regional, national and international microenterprise development communities. According to our most recent survey, 80% of all graduates of our intensive Business Skills Training Course have launched a business and 80% of all launched businesses were still in operation. Furthermore, the average increase in household income was $11,500, which for a low-income person could be as much as doubling his/her income. In order to achieve that success rate, especially among such low-income individuals, it is necessary to provide business development services that are significant in terms of both their depth and breadth.

WEB's services include:

1. Orientation, Screening and Selection
2. Business Skills Training Course - an intensive, 108 hour course
3. Mentoring
4. Access to Capital
5. Community Networking and Partnerships
6. Resource-Sharing
7. Professional Business Consulting
8. Internet Training
9. Government Certification and Procurement Assistance
10. Information and Referral
11. The Next Step program – industry-specific advanced training, networking, technical assistance, workshops, etc.

Women's Business Center Program

WEB is but one of 92 Women's Business Centers funded by the SBA's Office of Women's Business Ownership, the only federal office that targets women's business ownership. The fact that this is the only federal office that targets women-owned businesses is significant because of the critical contribution women owned businesses have to our economy.

According to the Center for Women's Business Research, as of 2002, in the U.S:

- There are 6.2 million women-owned businesses

• Women-owned businesses employ 9.2 million individuals (more than all of the Fortune 500 businesses combined)
• Women-owned businesses generate $1.15 trillion in sales

Between 1997 and 2002:
• The number of women-owned businesses increased 14% – twice the rate of all firms in the U.S.
• Employment by women-owned businesses increased by 30% - 1 ½ times the rate of all firms in the U.S.
• Sales of women-owned businesses grew 40% - the same rate as all firms in the U.S.

These statistics indicate the importance of supporting the start-up, stabilization and/or growth of women-owned firms. The reason the Women's Business Center program requires $14.5 million is simple: $12 million, and the current regulations, will not fund all of the existing Centers plus the more experienced eligible sustainability Centers plus new Centers. According to my calculations, $14.5 million is necessary in FY 2003 to fund the existing Centers plus the eligible sustainability Centers plus new Centers. Having said that, please let me take this opportunity to thank members of this Committee for putting forth an amendment to last year's budget, not once, but twice, to increase the funding for this critical program. I understand that I am preaching to the choir. After all, the 16 members of this Committee who have Women's Business Centers in their states are well aware of the thousands of women-owned businesses that are started, stabilized or expanded each year with the assistance of their Centers. Let me be clear, however, that those same 16 Women's Business Centers may not receive funding without the $14.5 million level of funding.

I understand that we are at war and funding is so very tight, yet the additional $2.5 million that is required to sufficiently fund the Women's Business Center program is so minor in the scheme of things, and the return on investment (detailed later in this testimony) and the benefits of this program are so crucial to our economic health, that it makes good business sense to invest funds where you will maximize the return – the Women's Business Center program.

PRIME
Both WEB and the Microenterprise Council of Maryland are recipients of the PRIME program. The PRIME program is an important source of funding for microenterprise development agencies because it allows for the intensive training and technical assistance services that are required by low-income individuals – the target group for this program. PRIME also provides funds for much-needed capacity-building activities for microenterprise development practitioners, as well as for research in the industry.

It has come to my attention that some believe that the Microloan technical assistance program and other programs are already serving the needs of all microentrepreneurs. Although I am not a Microloan intermediary, I think it is important that we all be reminded what these various programs are designed to do. Microloan technical assistance is somewhat similar to PRIME but can only be used to support those seeking loans up to $35,000. However, 90% of microentrepreneurs (estimated to be 3-4 million across the country) do not seek access to loans, but rather training and technical assistance. The Small Business Development Centers do not provide the same kind of intensive services, such as the 108-hour training course that WEB provides, that are required to build businesses from the ground up. Certainly only the PRIME program provides for the limited, but important, capacity-building and research activities for the microenterprise development industry. Therefore, I would suggest that PRIME is not duplicative, but substantially different from the other programs and that $15 million dollars, the authorized funding level, is needed to provide adequate resources to assist this entrepreneurial target group.

In time of recession many individuals choose entrepreneurship, as jobs are hard to secure. This is a time when microenterprise development programs are seeing a dramatic increase in demand for our services. At the same time, the private sector has a much more limited ability to provide charitable contributions. However, both the Women's Business Center and PRIME programs require significant private matching funds. This serves as a powerful incentive for the private sector to invest to the best of its ability in these programs. Therefore, these federal resources are most critical now. This is not the time to cut resources that are needed to do the very thing we need most – to build our economy.

I'd like to close by citing some of the benefits of microenterprise development:

• According to a study published by Dr. John Else, the return on investment for every dollar invested in microenterprise development programs is $2.72. This return is realized in multiple ways.

• According to an SBA study, microenterprises re-circulate 60% of the revenue they generate within the community where the microenterprise is located. This can be compared to chain stores which re-circulate 20% of their revenues in the community and warehouse-type stores which re-circulate a mere 6% of the revenues they generate within the community where the business is located.

• Economic development – microenterprises help increase the tax base through increased personal income, personal property, corporate, and retail sales taxes as well as jobs created and/or dollars paid to independent contractors.

• Community development – many microenterprises locate in low-income neighborhoods where larger businesses won't, providing much-needed goods and services and filling up vacant storefronts. To protect their investment in the community, microentrepreneurs tend to become active members of the community by serving on local merchant association boards or cleaning up the street or serving as a crime-fighting agent by keeping watch over neighborhood activities. As mentioned previously, they re-circulate dollars in the community by hiring neighborhood residents and purchasing from the local community. They also serve as role models in the community.

• Personal development – microentrepreneurs build their job skills, personal financial management skills, which often leads to lower debt and increased assets, and generally feel more accomplished and become more productive individuals, parents, neighbors and citizens.

Thank you very much for this opportunity. I would be happy to answer any questions at the appropriate time.

Chairman KERRY. Thank you very much, Ms. Zinn.
Mr. Wilson.

STATEMENT OF DONALD WILSON, PRESIDENT, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS, BURKE, VIRGINIA

Mr. WILSON. Senator Kerry, thank you very much. On behalf of the nearly 6,000 men and women who work every day in the Small Business Development Center program, I want to thank you for having us here today.

I want to especially thank you for the leadership that you and others on this Committee have shown in the last year in trying to get resources necessary to assist small businesses in starting, growing, and sustaining their businesses. I speak in direct reference to your efforts last year with the Kerry amendment to increase the funding for the SBDC program in the budget to $105 million, taking into account of the fact that, as a result of the Census, 24 States were going to lose substantial funds.

We appreciate the added funds that are in this budget as compared to last year's that was submitted by the Administration—and I mean that sincerely and commend Administrator Barreto for some of his leadership and the new attitude that is in the leadership towards the SBDC program.

But the fact of the matter is that those 24 States, with this budget, will still be locked in. We are talking about your State, Senator. We are talking about Senator Bond's State. Those 24 States, many of them have very high unemployment levels where the efforts now to start new businesses are accelerating, as they always do. When unemployment goes up, the efforts to start new businesses go up.

You heard the Administrator talk about the tremendous demand that is coming to his website. The reference to the Global Entrepreneurship Monitor. The Kaufman Foundation, the people who did that indicated 1 in 10 Americans are trying to start businesses. Our Christman study indicates that of our long-term counseling clients who are pre-venture, 54 percent actually go into business. These people start paying taxes.

The return on investment of this program is substantial and we simply do not understand why any administration would allow this program to continue, seeing 24 States cut it in a time of grave, grave need.

We also commend you, Senator, for S. 1499. I believe all but one Member of this Committee cosponsored that. I think you are now up to 63 or 64 cosponsors.

The fact that OMB or whoever is blocking this legislation from reaching the floor, bipartisan passed the Small Business Committee in the House. That legislation is desperately needed.

Look at the bankruptcy rate in small businesses right now. Millions of small businesses who are operating on credit cards and now cannot pay off those credit cards are looking at 21 percent interest. Severe credit crunch.

S. 1499 and S. 2320 will address these problems and they desperately need to be addressed by this Congress and this Administration.

Thank you, Senator.

[The prepared statement of Mr. Wilson follows:]

Statement of

Donald Wilson

President, Association of Small Business Development Centers

February 27, 2002

Before the

United States Senate Committee on Small Business

Chairman Kerry, Ranking Member Bond, members of the Senate Small Business Committee, I am Donald Wilson, President of the Association of Small Business Development Centers (ASBDC). The Association represents America's Small Business Development Center Network. The nationwide network of 58 state and territorial programs has almost 1,000 service centers in all 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, and American Samoa. On behalf of the nearly 6,000 dedicated men and women who work in the Network, let me thank you for inviting ASBDC to testify at this important hearing on the FY 2003 Small Business Administration Budget. In light of the nation's current economic conditions it is vitally important that Congress focus on what federal resources will be directed to assist and support the small business sector of the economy.

Mr. Chairman, America's Small Business Development Center Network is the SBA's largest management and technical assistance program. SBDCs serve more clients than all other SBA programs, credit and non-credit, combined. SBDC service centers provide businesses help in setting up their books, with developing business and marketing plans. SBDC personnel train clients in how to use computers and accounting software. SBDC counselors advise clients how to better manage personnel, and how to manage inventory. SBDC employees help clients to identify potential markets at home and abroad. And they provide these services in a highly professional manner. Studies of Pennsylvania and New York SBDC clients indicate that firms who have received SBDC counseling tend to have a greater survivability rate than the general small business population.

In FY 2001 the SBDC program provided counseling and training assistance to almost 610,000 clients. These figures represent a 4.6% increase over FY 2000. For example, Mr. Chairman, in your home state of Massachusetts, the number of SBDC counseling cases and training attendees combined increased from 5,472 in FY 2000 to 6,005 in FY 2001. In Senator Bond's state of Missouri, the number of counseling cases and training attendees combined increased from 6,537 in FY 2000 to 6,639 in FY 2001. And the national numbers that I cited earlier do not reflect the hundreds of thousands of informational requests that are handled nationwide by the Network on an annual basis. In response to emails, faxes, phone calls or drop in visits, SBDC staffers provide helpful but routine information to clients seeking information on such topics as where to get a business license or how to secure an employer identification number.

These client counseling and training numbers reflect the continuing demand by aspiring entrepreneurs and existing small business owners for management and technical assistance from the SBDC program. It should also be brought to the committee's attention that 43% of SBDC clients in FY 2001 were women, 24% were minorities and over 7% of the program's clients self-declared themselves to be veterans.

Mr. Chairman, America's Small Business Development Center Network will celebrate its 22nd anniversary this year. It is a small business management and technical assistance network without peer. The network has served nearly 9 million clients since its inception. In the last 6 months, ASBDC, on behalf of the Network, has signed a partnership agreement with the U.S. Forest Service to provide management assistance to vendors who provide services on Forest Service lands. ASBDC, late last fall, signed a partnership agreement with OSHA to increase small business awareness of certain OSHA regulations such as OSHA's record keeping requirements. ASBDC is working in partnership with the Energy Star program at EPA and the Rebuild America program to develop a curriculum to educate small businesses on ways to improve their bottom line through improved energy efficiency. ASBDC is also working with the International Franchise Association to try and develop a program that will make minorities more aware of business opportunities as franchise owners. The association is also working separately with the National Black Chamber of Commerce and the U.S. Hispanic Chamber to develop working partnerships designed to increase SBDC outreach to minority clients.

The Administration's recommendation of $88 million in funding for the SBDC program for FY 2003 is recognition of the contribution the SBDC program makes to the well being of the small business sector of our economy. Hopefully, it also reflects a growing awareness at OMB of the importance of small businesses to the economy. In 1998 the SBA office of Advocacy released a report entitled, The New American Evolution: The Role and Impact of Small Firms. That report asked the rhetorical question, "Are small firms important?" The answer the report provided has always stuck with me:

> First, they (small firms) are an integral part of the renewal process that pervades and defines market economies. New and small firms play a crucial role in experimentation and innovation that leads to technological change and productivity growth. In short, small firms are about change and competition because they change market structure. The U.S. economy is a dynamic organic entity always in the process of becoming, rather than an established one that has arrived. It is about prospects for the future, not about the inheritance of the past.
>
> Second, small firms are the essential mechanism by which millions enter the economic and social mainstream of American society. Small businesses enable millions, including women, minorities, and immigrants, to access the American Dream. The greatest source of American strength

has always been the American Dream of economic growth, equal opportunity, and upward mobility.

The Administration's budget recommendation for FY 2003 is equal to the figure appropriated for the program by Congress for FY 2002. ASBDC and its members are cognizant of the fact that numerous domestic discretionary programs have been recommended for funding reductions this year. ASBDC members understand the impact of declining revenue projections on budget development. We commend the administration for recognizing the significant needs of the small business community in the face of a contracting economy and the terrible events of September 11. The 4% growth in the SBA budget is welcomed. But is it sufficient to meet the nation's needs?

It is important, for this committee to remember that, as a result of the 2000 Census, twenty-four (24) state SBDC programs took serious cuts in federal funding in FY 2002. Those states took cuts, not because they lost population, but because their population did not grow as fast as the national average during the decade of the nineties. For example Mr. Chairman, the SBDC in your home state of Massachusetts was eligible for approximately $125,000 less in federal funding than it was in FY 2001. The Missouri SBDC was eligible for approximately $55,000 less in FY 2002 than in FY 2001. It should be noted that many of the states that took the most severe cuts in FY 2002 are states suffering some of the highest unemployment levels in the nation today. It is important to understand that what some refer to as proposed level funding for FY 2003 simply locks in SBDC programs in 24 states at the reduced FY 2002 funding levels. And those reductions came at a time of heightened need.

Chairman Kerry, it was through your leadership, with bipartisan support from Senator Bond and others on this committee, that the Senate approved the Kerry Amendment (S. AMDT 183) to the FY 2002 Budget resolution last April. ASBDC is grateful to everyone who supported that amendment. Under the Kerry amendment, FY 2002 funding for the SBDC program would have been established at $ 105 million in the budget, thereby preventing any state SBDC program from suffering a reduction in funding from FY 2001 to FY 2002. Unfortunately, the Senate provision was not accepted in conference with the House and over 40% of the state SBDC programs suffered funding cuts as they began FY 2002. We are also keenly aware and appreciative of the letter sent last year by Senator Bond and some of his colleagues to the Appropriations Committee urging that $105 million be appropriated for the SBDC program so that SBDC counselors would not be laid off in some states and services curtailed.

Everyone associated with the SBDC program, state directors, center directors, counselors and clients are gratified to see that last year's counterproductive recommendations for fees for counseling were not repeated in this year's budget. We believe that OMB heard the views of this committee and its House counterpart on the issue of counseling fees. We know that both committees were responding to our clients' and their constituents' concerns that at the very time big businesses were being slated for large tax cuts, startup firms were facing the prospect of new taxes, in the form of user fees. It is our understanding that Administrator Barreto has spoken out within the

Administration against fees for counseling. We commend him for his action and appreciate his leadership on this important issue.

I know there is concern throughout the small business community at reports that lending authority for the 7(a) program has been reduced by approximately 50 %. SBDC counselors frequently recommend the 7(a) program to clients if they are unable to secure conventional financing for working capital, real estate, or equipment. What the impact of this reduction in loan authority will be on SBDC clients and small businesses generally, I cannot predict. But this level of lending authority is cause for concern.

There is Mr. Chairman language in the President's budget about which there is considerable concern throughout the SBDC program and I am compelled to address it directly. I refer specifically to language on page 351 of the Budget document and I quote, " Measuring the performance of these programs (SBA management and technical assistance programs) has been difficult because many factors beyond SBA assistance affect small business sustainability and growth. **In addition the SBDCs have been reluctant to provide information to SBA**". Administrator Barreto has advised me that he does not believe SBA was the source of that statement. Regardless of the source, the statement cannot be allowed to stand unchallenged.

The SBDC program provides SBA with more detailed program activity data, and more detailed economic impact data than any other management and technical assistance program within the agency. This unfortunate budget language appears to be designed to give Congress and the public the false impression that the SBDC program is uncooperative in SBA's efforts to measure program performance; that the SBDC program is reluctant to have its performance measured. The claim that SBDCs have been reluctant to provide economic impact date is as incorrect as the very next sentence in the Budget, which states, " In fact Congress passed legislation prohibiting SBA from collecting client level information." It would be enlightening to know who the author was of both of these sentences in the Budget.

As this committee knows full well, the SBDC program has always opposed openly and without apology the collection of the names, addresses and phone numbers of SBDC clients by the SBA in a massive centralized database at the agency. Our clients do not want their privacy compromised in that way. SBDC Board Chair Diane Wolverton, in candid responses to questions before the House Small Business Committee last year made abundantly clear why SBDC clients want and need their privacy protected. Apparently, that committee shared our concerns because it unanimously approved Ranking Member Velazquez's amendment to HR 203. That amendment was crafted to assure the confidentiality of SBDC client information. As members of this committee are probably aware, the full House overwhelming approved HR 203 last fall.

Mr. Chairman, when SBDC clients come to an SBDC service center, they are given SBA Form 641 or its equivalent to read and sign. I should point out to the Committee that OMB formally approved Form 641. Clients, in signing Form 641, Request for Counseling, acknowledge that they "understand that any information

disclosed to be held in strict confidence by him/her."(referring to the client's management counselor). SBDC counselors have always honored that client understanding.

However, in recent years SBA has repeatedly proposed an Entrepreneurial Development Management Information System within the agency. Representatives of the agency until last month have insisted that the system include the names, addresses and phone numbers of all SBDC clients. Explanations by SBA personnel of why such a system was necessary have been varied. Inquiries as to how the information would be used have received widely conflicting answers. ASBDC, SBDC host institutions, SBDC state directors, counselors and clients have always been reluctant, especially in light of the assurances implicit in Form 641, to provide the SBA with client names, addresses and phone numbers. And SBDC personnel are not the only ones who feel this way. It is my understanding that many if not most SCORE counselors share our views with regard to their clients' confidentiality.

SBDC case files, however, are available on site at any SBDC service center for random review by SBA project officers, program managers, program review teams and certification teams in their oversight and management capacity. If the reluctance of SBDCs to assist SBA in creating a centralized database of clients' names addresses and phone numbers is what the budget language refers to, then I acknowledge publicly here today that reluctance. SBDCs, however, to the best of my knowledge have never been anything but forthcoming with regard to data about the activities of the SBDC program, demographic data about our clients or economic impact data. Statements to the contrary are, to my knowledge, without foundation.

ASBDC every two years does a comprehensive survey (the Chrisman study) of the program's long term counseling clients (five hours of counseling or more) and shares that data with Congress and SBA. The latest Chrisman study, conducted two years ago indicated that 49.3% of long-term SBDC counseling clients served during 1998 were pre-venture clients. Chrisman estimates that of that 49.3% who were pre-venture, 54% actually started new businesses during 1998 or 1999.

I am extremely pleased to report to you Mr., Chairman that as a result of negotiations and conversations with officials in the SBA Office of Entrepreneurial Development during the last two months, the agency earlier this month acknowledged that it can achieve its informational objectives without having clients' names, addresses and phone numbers in a centralized database. We appreciate that, under Administrator Barreto's leadership, SBA's Office of Entrepreneurial Development, ably headed by Associate Deputy Administrator Kaaren Johnson Street, has had the flexibilty to accommodate the very real privacy needs of SBDC clients.

The Agency has indicated it needs the number of clients served compiled by city, state and zip code. Client numbers and demographic data historically have been available by state and service center. SBA also wants traditional data regarding gender, ethnicity,

etc., broken out by city, state and zip code. ASBDC and its members are prepared to work cooperatively with the agency to achieve these objectives.

Despite the fact that SBA has informed us that they no longer need clients' names, addresses and phone numbers, this committee needs to know that the disparaging statement in the Budget, implying that SBDCs are reluctant to supply data on the program's effectiveness is adversely impacting the program's reputation. The American City Business Journals, which produce business publications in approximately 40 major markets, carried an article following the Budget's release highlighting the fact OMB rates the effectiveness of the SBDC program as " unknown." In response to that article being carried in the New Mexico Business Weekly, a state legislator in New Mexico has called for an investigation of the SBDC program in New Mexico. If OMB truly has doubts about the effectiveness of the SBDC program, then why is this year's Budget recommendation for the SBDC program $12 million greater than the Administration recommended last year? It is unfortunate that the reputation of the SBDC program has been somewhat compromised by these statements in the budget.

I would encourage this committee to ask OMB to document what data SBA may have from SCORE, the Women's Business Center Program, the Micro loan Technical Assistance Program, the Minority Business Development Center Program, the Native American Business Center program, etc, etc., that they do not have from the SBDC program. Ask OMB what data they have from the Minority Business Development Center Program at the Department of Commerce. If, in fact, these other programs have submitted the same or less data, then OMB should be asked why the SBDC program was singled out among management and technical assistance programs for an effectiveness rating of "unknown".

On a more positive note Mr. Chairman, ASBDC and its members deeply appreciate your leadership in crafting and introducing S. 1499, the American Small Business Emergency Relief and Recovery Act of 2001. That legislation is needed as badly today as the day it was introduced. The members of this committee focus on small business issues. As a result they understand how badly small businesses are hurting. In a strong show of bipartisanship, virtually every member of this committee co-sponsored S. 1499. Sixty-three of your senate colleagues, Mr. Chairman, have co-sponsored S. 1499. We are grateful to every one of those Senators. It is extremely unfortunate for America's small business community that this legislation has been unable to reach the Senate floor. It is equally unfortunate that a companion measure S. 3230, authored by Chairman Manzullo has been unable to reach the floor of the House despite overwhelming bipartisan approval by the House Small Business Committee.

This important legislation addresses numerous serious needs existing today in the small business community. S. 1499 would enable SBDCs and other management and technical assistance providers to address the needs of tens of thousands of additional clients who are experiencing severe business problems brought on by the decline in the economy and the events of September 11. S. 1499 would also enable the SBDC program to assist tens of thousands of Americans who have lost their jobs and who are seeking to

stabilize their financial situation through self-employment. As the Bureau of Labor Statistics will verify, when unemployment increases, efforts at self- employment increase. I believe the President's budget included roughly $70 billion for a comprehensive economic stimulus bill. If a comprehensive economic stimulus bill is not going to be enacted as it now appears, we would strongly recommend that the Budget resolution considered by the Senate include adequate funding for S 1499, which I believe, has been estimated to cost only about $800 million.

Mr. Chairman, all of us are eager to see the economy turnaround. And there are predictions that recovery may be underway. However, we believe it is likely that unemployment will continue to rise in the coming months. The decline in unemployment for the last month reported may have been a seasonal aberration. A survey released earlier this month by the National Conference of Mayors indicates that 76% of small business owners do not anticipate hiring new employees this year. Those disturbing survey results do not bode well for a robust or swift economic recovery.

There is unquestionably a looming credit squeeze of potentially significant proportions. The Enron scandal, and continued reports of restatements of earnings by large corporations have shaken everyone's confidence in corporate financial statements. This loss of confidence is forcing banks to severely tighten credit. And major lending institutions may well be facing significant loan losses in the months ahead. A very uncertain stock market is impacting the net worth of millions of Americans and could well adversely impact consumer confidence.

The nation is fighting on two fronts. We are fighting a difficult war against terrorism worldwide and we are fighting contraction and slow growth in the economy. President Bush has presented a budget that proposes spending a little over $2.1 trillion. SBA's budget by my calculation, and I am no mathematician, represents less than 4/100 of 1% of the proposed FY 2003 Federal Budget. Members of Congress are going to have to decide if that is an appropriate allocation of the federal government's financial resources. It is difficult to reconcile the fact that SBA receives only about 4/100 of 1% of the budget when **small businesses** in this country account for half of the nation's gross domestic product, employ 58 percent of the nation's workforce, create an estimated 75% of net new jobs and, **according to the IRS, account for 44 % of all money collected by the IRS annually.**

Certainly, there is no reason to believe that big business will lead us out of the current economic slowdown. The Fortune 500 companies have experienced a net loss of jobs in the past decade. Kmart, once the nation's largest retailer has declared bankruptcy. Enron, once the nation's seventh largest corporation has collapsed. Kaiser Aluminum has filed for bankruptcy. The companies that will be responsible for reducing the nation's unemployment rate, the companies that will put American's back to work and paying taxes will be America's small businesses.

America's corporate conglomerates continue to approach Congress for what some view as unseemly levels of tax relief. Some bills introduced in Congress would provide

billions to single companies. Ford Motor Company alone under the economic stimulus package that passed the House last year would have received a tax rebate reported to be as high as $2 billion dollars, more than twice the total budget of the SBA. General Electric, GM and others reportedly were not far behind.

The SBDC program struggles to supply services to a potential customer universe of 25 million self- employed on a budget of $88 million in federal funds annually. And yet, Department of Agriculture press releases report how a handful of oil seed farmers received direct federal payments of approximately $85 million late last summer. I am not here to bash agricultural subsidies. Production of food and fiber are essential to our national security. But we hear constant statements regarding how these agricultural payments are essential to the preservation of the family farm. And they may well be. If so, that is well and good. But we hear very few statements about the need to preserve the family hardware store, the family pharmacy, the family grocery store, dry cleaners, office supply store, etc. Today, when millions of small businesses are facing difficult times, the government's current allocation of resources does not indicate a determined commitment to the nation's small business community.

Small businesses need more than simply modest tax cuts. In some instances they may need low interest loans. In the case of those small companies devastated by the events of September 11, they may need grants. Most need expanded management and technical assistance. And virtually all-small businesses need regulatory and tax compliance assistance. That regulatory compliance and tax compliance impose disproportionate burdens on small businesses as compared to larger firms is well documented. In most Departments and agencies a fairer share of resources needs to be directed toward small business. The Energy Star program at EPA is a good example. Only a very modest percentage of that program's resources are focused on the small business community. And it is the small business community that is the least energy efficient. That is not a wise allocation of resources. I know Senator expressed concern about this issue a few years ago.

Mr. Chairman you will be submitting a letter to the Senate Budget Committee in the coming days. I sincerely hope that your letter will encourage the Budget Committee to take a serious look at what small businesses contribute to the Federal Treasury and what they receives in return. Members of this committee clearly understand the problem. However, it is not clear that those in the Executive Branch who write budgets and those in the Congress who write budget resolutions or who craft appropriations bills are as sensitive to the needs of small business as those who serve on this committee.

Certainly small business owners understand that they benefit from a strong military. They benefit from road construction, from spending on health care, etc. But if our government does not allocate adequate resources to the needs of small businesses and offer adequate assistance to the one in ten adults in our economy who are seeking to establish a small business, then our economy will likely face only a moderate recovery at best. And if that recovery is shallow, as many now predict, we will face serious deficits for the rest of the decade and likely beyond. If that occurs, Congress will lack the

financial resources to address the health care needs of an aging population. Congress will not have adequate resources for roads and other infrastructure improvements. Congress will be unable to pay for both guns and butter.

Mr. Chairman if an SBDC counselor can help a small business stay viable, there is a clear return on investment to the Treasury. That small business will pay taxes and its employees will pay taxes, taxes that would be lost to the Treasury if the business failed. Moreover, if that small business can be prevented from failing and its employees prevented from joining the ranks of the unemployed, the Treasury will not pay out as much in unemployment compensation, food stamps, Medicaid and other safety net programs. There is meaningful evidence that the true return on investment to the Treasury resulting from SBDC assistance to small firms, if viewed in the terms I have outlined, exceeds the dollars appropriated for the program.

Mr. Chairman we appreciate the efforts this committee has made under your leadership. We noted earlier your leadership on S. 1499 and the committee's support of that important legislation. We would also commend to you and all the members of this committee a trio of measures approved overwhelming by the other body that originated in the House Small Business Committee. I refer to HR 203, the Sweeney bill; HR 2666, the Brady bill and HR 2538, the Udall bill.

HR 203 is a particular priority. A recent GAO report requested by Ranking Member Bond confirms that federal agencies have done a very poor job in writing regulations that small businesses can understand. The report also confirms the disproportionate cost burden that federal regulations impose on small businesses. I believe it is estimated that the per- employee cost to small businesses to comply with federal regulations is more than twice the cost to larger businesses. If the pilot program proposed in HR 203 were enacted and funds appropriated, SBDCs, partnering with other entities such as the Small Business Assistance Programs under Section 507 of the Clean Air Act, and the P2 programs, could, we believe, significantly enhance the level of environmental compliance at small businesses. I should point out that to effectively address the compliance assistance needs of small businesses, our compliance assistance partners also need additional resources. In addition to improved environmental compliance, HR 203, if enacted, could enhance employee safety in the workplace and enhance tax compliance among small businesses.

We would also urge this committee to act on HR 2538, which seeks to enhance the quality and availability of business management and technical assistance services to Native Americans. The grave economic conditions on Native American lands need to be addressed. HR 2538 would establish a modest three-year pilot program. All that we ask is to give this pilot program a chance to see if SBDCs can make a difference. HR 2666 in our opinion also strongly deserves this committee's consideration.

ASBDC looks forward to working with you Mr. Chairman, with ranking Member Bond and with all the members of this committee to heighten awareness of the contribution small businesses make to the overall welfare of this nation. We stand ready to assist this

committee in advocating for adequate budget resources to be directed to meet the needs of the nation's small business sector. ASBDC, on behalf of its members, pledges to this committee, that the SBDC Network will continue to utilize the resources the program receives to the maximum benefit of the clients the Network serves.

Thank you Mr. Chairman for allowing me to appear before this committee today. ASBDC appreciates the committee's consideration of its views. I would be glad at this time to try and respond to any questions the committee may have.

Chairman KERRY. Thank you, Mr. Wilson. I really appreciate it. I appreciate the clarity and passion of all of your testimonies.

Mr. Administrator, I appreciate that you are not at the panel, but I really do appreciate the fact that you are here. I think, for Ms. Sabelhaus also, whom we will confirm and we look forward to hearing in a moment, I just think it is really important that you are here to hear this. This is real stuff. These are the real people who are out there. They are the practitioners.

I wonder if any of you were asked your opinions about the budget previously? Did any of you weigh in on the budget? Have you met the Administrator previously?

Mr. WILSON. Yes.

Chairman KERRY. One of you has.

I think that it is important, Mr. Administrator, to really hear this. I am going to send this testimony over to Mitch Daniels. I am going to send it over to Andy Card. My hope is that they will really take note of what has been put forward here. It is not a plea for a handout. It is sort of a sound business plan.

That is what you come out of, is business, and so does Ms. Sabelhaus. So I think that it is really important to focus on it.

I will not belabor it, but I do want to ask a few questions if I can. Again, Mr. Administrator, I really do appreciate that you are here to hear it. I think it is important, and hopefully it will help you to go back to those folks and say, “Look, we have to do something about this,” because we do.

Mr. Wilkinson, you mentioned that SBA and OMB used a default rate assumption about 13 percent and you questioned that a moment ago. Can you give me a little more sense of that? I mean, have we ever been at a 13-percent default rate? Where does that come from?

Mr. WILKINSON. Not since the implementation of credit reform. I understand that what they do at OMB is a simple average of default rates all the way back to 1986. As you know, the program has changed substantially since 1986 and it is not near what it used to be. It has improved substantially.

Chairman KERRY. I remember when we reviewed that, actually we were outraged at what was happening, so I think we have tightened up considerably.

Mr. WILKINSON. I have a chart from SBA that shows, starting with 1992 which is the first year of implementation of credit reform, defaults were at 9.2 percent and they have declined since then. Yet we are still using that 12.87 number.

Chairman KERRY. I think it is fair to assume, in fairness to the Administrator, that given what has happened to the economy, there is going to be some increase. You cannot sit there and say we are going to—I mean, that was a growing economy. We are not now in a growing economy, and I would assume you would have to also agree there will be some higher rate of default.

Mr. WILKINSON. We have seen a small rise in delinquencies. But to get to the number that is in their budget request we would have to have 30, 40, 50 percent increase in defaults to get to that number.

Chairman KERRY. What is the impact of that?

Mr. WILKINSON. Each 1 percent increase in the default estimate adds between 30 and 34 basis points to the subsidy rate. So to get down to the 9.38 that is in the credit supplement number, again would knock off over 100 basis points or about $100 million in appropriations for next year.

Chairman KERRY. So it is one of those baseline assumptions that you can make that jacks up the default rate, restricting what you are putting out and allowing you to hold on to more of what you have got; is that correct, in the budgeting?

Mr. WILKINSON. What it does is it forces us to go seek appropriations that really do not need to be made. We are fighting for appropriation dollars every year that end up in the Treasury, and that is highly inefficient.

Chairman KERRY. Fair enough. We talked about the funding for the 7(a) funding previously with the Administrator, and you talked for a moment about moving those larger real estate loans to the 504 loan program and reducing the average size of the 7(a) loan. What is the impact on the program specifically? Concomitantly, what is the impact on long term capital for small businesses as a result of that shift?

Mr. WILKINSON. About 35 percent of 7(a) dollars are in loans in excess of $500,000. So it is a good number. I am looking at a 2000 report that showed about 5,500 borrowers, so it is a significant portion of 7(a) lending that would either disappear or be moved into another program.

Long term the impact is, in the 7(a) portfolio, that the loans paying the highest fees are not there any more, which is going to put a significant upward pressure on the subsidy rate for those loans remaining. So when we come back and talk about the fiscal year 2004 budget we are going to see a much higher number if those 7(a) real estate loans are not there.

Chairman KERRY. You are requesting a program level of $12 billion; the Administration is at $4.85 billion?

Mr. WILKINSON. I think the Administrator said we were 11 percent ahead of last year, on pace to do about $10.5 billion for this year. S. 1196 will encourage some additional volume in fiscal year 2003 and that is why——

Chairman KERRY. How do you account for the increase in demand?

Mr. WILKINSON. The lower fees will encourage lenders to come back in the program. As you know, several lenders had exited the program including the No. 1 volume lender in the country back in, I believe it was 2000, 1999 or 2000, exited the program because of the high costs of delivering this product. So we hope some of those lenders will come back.

Chairman KERRY. Mr. Crawford, you also focused on this 504 and the increase in fees. Is there an explanation for why that subsidy rate has gone up?

Mr. CRAWFORD. I think it is interesting because the default rate that they forecast actually declined from 8.4 to 8.3 percent, so it is surprising the fee increases. As we study the subsidy model, it increases because they are decreasing their net recovery. Last year the net recovery on our defaulted loans was 26 percent, which was

fairly bad. This year it goes down to an abysmal 20 percent, which I find atrocious.

Chairman KERRY. Why is that?

Mr. CRAWFORD. I do not have an explanation for that, Mr. Chairman. You look at our loan liquidation pilot that you authorized several years ago. We are recovering 55 percent, and that is net of expenses. The asset sale itself, the numbers I get out of the agency indicate they are recovering 50.2 percent. That should be net of expenses. I do not see the connection between 50 percent or 55 percent and 20 percent. I am sorry, I do not see it.

Chairman KERRY. We should certainly try to understand it. I do not understand it as I sit here now. I think we should try to figure out why that exists.

Mr. Corbet, the technical assistance piece, obviously you have spoken thoughtfully about the link between that and loans. Would you re-articulate, if you will, why you think the request level for TA is so low? What is the real meaning of it in practical terms? Give me an example, as a practitioner, of what the impact is.

Mr. CORBET. Why they only requested it to be so low?

Chairman KERRY. Do you have an answer to why they requested it be so low? Sure, I would be curious as to——

Mr. CORBET. I would too.

Chairman KERRY. You are curious or you have an answer?

Mr. CORBET. I would be curious as well. I am with you there.

The TA is directly tied to the success of the program. As I indicated in my testimony, commercial bankers will not make these loans. That is the reason this program was created in 1991 is because bankers would not make $10,000 business loans. I understand why. Bankers are in the business to make money, and you cannot make money on a $10,000 loan because you have to provide assistance to the borrower to ensure the repayment comes back. It may be just following up, reviewing their financial statements, to have a discussion with them, to give them ideas of how to improve their——

Chairman KERRY. So you are saying just on a simple time cost basis you cannot do it?

Mr. CORBET. Exactly. The TA is directly tied to the success that we have had to date. The fact that it was cut to the level, that it was cut this year during fiscal year 2002, we still have not seen the effects of that yet. We know that the intermediary lenders are most likely going to have to lay off staff in certain parts of the country. We do not know what the effect of that will be yet.

My biggest concern is that if we do not get that back up to minimum levels that we will start to see loans not being paid back to the Federal Government. That is really my biggest concern because the success with these high risk loans is that day-to-day assistance that we provide these borrowers. As I indicated, the majority of the TA that are provided for the Microloan program is for post-loan activities.

Chairman KERRY. Is it possible for somebody in the bureaucracy to sit there and say, this just is not worth it, what we are getting for this TA is not worth it? Could somebody make that judgment, or is the evidence incontrovertible that it is otherwise, that it is worth it?

Mr. CORBET. I would highly question that comment and would not understand how they could not see that the jobs that we have created through this program—I mentioned there was 14,000 created. There are another, I think roughly, 25,000 jobs that were retained as a direct result of the loans that were made through this program. So that is why I indicate that the TA has got to be raised back up so that we could maintain the quality of the portfolios that we have made to date.

Chairman KERRY. The difficulty is also that if you have a loan for—the whole concept of the smaller loans and microlending is to bring people in for whom credit is otherwise unavailable.

Mr. CORBET. Absolutely.

Chairman KERRY. Also who do not necessarily have the skills to qualify, et cetera. Now if the success rate of that program is such that the net of the loans made is on the plus side, as I believe it is, it is hard to understand in economic terms why you would not continue to do that.

But more importantly, or equally as important, the economic measurements we use today do not factor in the plus side benefits of that person conceivably being off welfare rolls, that person having gainful employment and therefore providing a role model to family, perhaps being able to support kids in a way that empowers those kids to do something other than wind up in the court system, or in the streets, or on drugs, or whatever. There are all kinds of plus sides here that we do not measure. We do not measure any of those things in our gross national product. We certainly do not measure them in the value of this program.

But it seems to me when you look at so many people who are new—many of them are new entrants to the country, but not all of them. These are people who are certainly new entries into the marketplace and they wind up as taxpayers, many of them with two or three people working for them. The numbers of stories of people who have gotten $3,000, $5,000 and opened a store in a community that previously was dying and helped to bring back a street in that community, and helped to provide a storefront, and helped to provide a job where others are suddenly on the tax rolls, are just extraordinary stories. They are what this country is about.

So many of them have gone on not just to repay their loans but to be viable businesses. You are in the center of that. Why don't you share with us for a moment what this mean in Baltimore to the community? Maybe you could give a little life to it.

Ms. ZINN. Thank you, I would love to do that. Before I say what it means to the community per se I would like to answer some of the points that you bring up. Dr. John Else in Iowa has published a study that says for every dollar that is invested in the microenterprise development programs, $2.70 is the return on the investment. That is a combination of taxes paid, both increase in personal income taxes, corporate taxes, personal property taxes, and retail sales taxes, jobs created, savings on public welfare dollars as you mentioned.

But in addition to that, SBA itself has put out a study that said that 60 percent of all the revenue generated by microentrepreneurs are recirculated within the community where that business is located. That can be compared to only 20 percent of the revenue gen-

erated by chain stores being recirculated in that community, and 6 percent by warehouse type stores. So this is absolutely a community development, not only an economic development as we mentioned before with the taxes and the jobs, but a community development benefit.

These people are filling up storefronts. They are going into neighborhoods that most larger businesses will not go into. They are very active in their neighborhoods in terms of making sure that they are aware of the activities in the neighborhood, to decrease crime. They are filling up the vacant storefronts. They are serving as excellent role models in the community, and they are very involved in their community to protect their investment.

But also as you mentioned, it is very important in terms of personal development. We are talking about serving people who, I can tell you as one example of a woman that went through the WEB program, she was on welfare when she came to WEB and she had many problems with drugs and other things like that. We helped her open a business that is a tax, bookkeeping, and accounting business. She is now not only fully self-reliant but she also employs other people that have been in the penal system and in the welfare system. She employs about six other people right now. She is a wonderful spokesperson. She is a leader in her community. She is working actively with the kids that are in trouble in her community, and she is very well respected.

So we are talking about building skills. We are talking about building personal income, building household assets. We are talking about helping people realize all of their full potential and be contributing citizens, neighbors, and residents. So these programs have many numerous benefits, not just economic but community and personal as well.

Chairman KERRY. Why is technical assistance an important ingredient in what the Women's Business Centers do and what PRIME does and almost equal to the access to capital itself?

Ms. ZINN. That is exactly right. As I said before, 90 percent, 3 to 4 million microentrepreneurs in this country do not borrow money. A lot of them are risk averse. A lot of them just do not choose to go that path. So what we are able to do through our very intensive services of training and one-on-one technical assistance is teach them the skills that they need and give them the support systems that they need that they are able to start and sustain these buildings.

We work very closely with the Microloan program and we, actually for the people that do get Microloans, we will refer them there. So we have done a lot of the upfront work to help people not only get Microloan programs, but in cases where it is practical, loans from traditional lending institutions.

So we have numerous stories about people who feel that they have come into our center and said that this is the first time as a woman they have really felt not intimidated, and respected enough to be able to pursue this dream of starting their business when they are not in competition with males or other people. So these services are extremely important to them and many have said they would not have been able to do it without them.

Chairman KERRY. Mr. Wilson, with respect to the SBDCs you have asserted that the $88 million is simply not enough to run them this year. Can you give us a little more information about why that is so?

Mr. WILSON. I would be delighted to, Senator. This program has had minimal growth for a number of years. From 1994 until 1999 you had 40 States who had absolutely no increase in funding for a 5-year period.

Chairman KERRY. Forty?

Mr. WILSON. Yes. Today you have a number of States, the less populated States, New Hampshire, Montana, Wyoming, about 15 of those have been level funded now at $500,000. If this budget goes through they will be stuck at that level for 5 years. You have States like your State that took $125,000 cut in 2002. Pennsylvania took nearly $400,000. Senator Levin took probably close to $300,000. New York close to $300,000. These are the cuts they took in 2002 because of the census and they will be locked in those.

Please understand, these States did not lose population. They did not lose small businesses. They just did not grow as fast as the national average of 13.2 percent. So we do not have any decline in demand. The demand, in fact as the Administrator noted to you, the number of people wanting to start businesses, the people coming to our web sites, the people knocking on our doors, we have in many of our centers a 45-day waiting list for counseling. That is intolerable if you are small business on the verge of going under.

The return to the Treasury—one of the things that obviously OMB never calculates is that you are saving someone from being on welfare or unemployment or food stamps or whatever it may be. That is never calculated in how they figure out the return on investment for this program. The Christman studies and others indicate that our program returns 3 to 4 percent. Every dollar that the Federal Government spends in this program leverages at least another two in virtually every single, solitary State. We cannot even get a dollar unless we match it.

The crisis that we are facing right now is that small businesses—at the height of this economy, you can manage a business and be profitable. You can manage to get by. But if you are not managing it well in hard times you are going to go under, and you are putting thousands of workers out of work.

You talk about real life stories. I was at a major conference with adults with disabilities who are interested in entrepreneurship, a gentleman came up and talked about how this program changed his life. Out in Michigan when they do an awards ceremony for outstanding entrepreneurs, 12 regions of that State—and I would estimate to you that eight of those people, many of them having been unemployed or on welfare or whatever, stood up and literally with tears in their eyes, and their families there, and their State senators there, and so forth said, this program changed my life.

The amount of dollars is almost insignificant. My testimony notes that small business, Senator, as you well know—and the numbers just came out—we have gone up from 51 percent to 52 percent of the GDP. The IRS says small business sends in 44 percent of the revenues in this country. We create 75 percent of the new jobs, and we give SBA $\frac{4}{100}$ths of 1 percent of this budget?

There is something wrong with the allocation of resources there, Senator.

Chairman KERRY. What do you say, Mr. Wilson—and I appreciate your comments very much—but let me play devil's advocate. You are an articulate spokesperson. What happens when somebody philosophically sits in an office in Washington with their hands on this budget who does not believe necessarily that Government ought to do that? You know, when the marketplace gets tough, that is when tough businessmen get going. Those who are not, may not survive, and that is the law of the marketplace. How do you respond to those that say, this is not the role of Government?

Mr. WILSON. I think the small businesses that have paid taxes into this country for years feel that they are owed something by their Government. I am not saying a handout. I am saying a help in hard times.

I look at other programs, we have dozens of them and they are all beneficial, and I am not arguing with any of them. I realize the difficulties that the budget folks in the Administration have in setting a budget. But you look at the fact we have 2.2 million farmers in this country; about 25 million in small businesses. Without batting an eye we allocated $22 billion to the farm program.

Chairman KERRY. We just passed a bill allocating $75 billion.

Mr. WILSON. I am not arguing that—we need to ensure for national security and every reason that we have food and fiber. But all of the programs that this Government is trying to do, all ships will rise if the entrepreneurial community in this country is rising and creating jobs.

Everyone understands that one of the major reasons we have the deficit we do is the economy has slowed down, and people are being laid off, and people who were paying taxes into this Treasury no longer are, and people who were paying taxes are now drawing food stamps or welfare or whatever it may be. If those people are not put back to work, that downward trend in revenues is going to continue affecting every program that you try to work with, Senator. The only way to get those dollars going up again is to put those people back to work, and all the data says small businesses generate 75 percent of the jobs, so why would not we focus resources on that sector of the economy?

Chairman KERRY. With respect to the SBDCs, the budget that we were given is pretty tough on the notion that Congress passed legislation prohibiting SBA from collecting client level information, and that data is necessary to monitor the impact of SBA resources and hold program managers accountable for results. Are we not able to get adequate information from SBDCs in order to be able to measure their performance?

Mr. WILSON. Senator, I regret to say to you that that information is incredibly misleading, in fact if not outright false. I know of no request by SBA or OMB that SBDCs have ever refused to provide data. We provide more data in more ways than any management and technical assistance program that this Government, whether it is SBA, Commerce, or wherever. We have always cooperated.

What they are referring to is we have been reluctant, Senator, because of the strong feeling of our clients, because of the fact that we have given them a 641 counseling form that says, your vital in-

formation will be kept confidential. The only thing that we have ever been reluctant to give is the names and addresses of our clients. Everything else they have ever asked for we have always complied, and I believe the Administrator would back us up on that.

Chairman KERRY. I thank you very much. I thank all of you. We are, regrettably, running up against a time wall here. I am most appreciative of your testimony and I am quite confident the Administrator is pleased that he has been able to hear some of this. I am sure it will empower him to hopefully advocate even more strongly on your behalf. So thank you for taking time to be here with us. It has been very helpful.

Thank you.

Mr. WILSON. Thank you, Mr. Chairman, very much.

Chairman KERRY. If I could call the Administrator back for the purpose of introducing Ms. Sabelhaus. You have been very patient but I do think, Ms. Sabelhaus, this has probably been a helpful session. I am delighted to welcome you to the Committee. I thank you for taking a moment to meet with me and I apologize that it was at the last minute. I just unfortunately ran into the proverbial time crunch.

But I welcome you. On a personal level, I know you have worked with some interests that I have been involved with, and my wife, and we have friends in common. We are delighted to welcome you to this new enterprise.

Without further adieu, Mr. Administrator, we thank you for your patience this morning.

Mr. BARRETO. Thank you, Mr. Chairman. It has been a pleasure to be here this morning and listen to the great comments that I have heard tonight. We are fortunate to have so many passionate, articulate advocates on behalf of small business. I share their passion and I share their commitment, as I know that you do as well.

Today is a very good day for the SBA because we are going to be meeting and talking and hopefully confirming our new Deputy Administrator. I could not help but think, as I was hearing the comments, of how perfect Melanie Sabelhaus is as the Deputy Administrator. She is one of those businesses that really has experienced the American dream. She will talk about that in her remarks.

She is one of those individuals that not only has experienced a life that has been challenging, but has also had so many great successes in her life. She is one of those individuals that is a visionary, and had a dream and pursued that dream, and was capitalized with a very small amount of money, as are many of the businesses that we represent and that we talk about. So today truly is a very good day for the SBA.

It gives me great pleasure to introduce Mrs. Melanie Sabelhaus, the President's nominee for Deputy Administrator of the U.S. Small Business Administration. Her vast and wide-ranging experience will make her a valuable asset to the SBA's management team. Her experience as an executive with IBM will contribute greatly in our efforts to develop the SBA that is responding to the changing needs of small business.

But more importantly, her experience as a successful entrepreneur will contribute greatly in the day-to-day management of the SBA. She knows what it takes to make a small business succeed: meeting a payroll, having people depend on you. I am really looking forward to Melanie's confirmation and the opportunity to work with her.

She is somebody who will help me to do as the President says, to create an environment where small business people are willing to take risks, where small business people are willing to make an investment, where people are heralded for their entrepreneurial ability, and they are celebrated. That is really the role of Government, to create that kind of environment. I know that you are committed to doing that. We are committed at the SBA, and with Melanie Sabelhaus we will truly have a partner to enable us to do that.

So without any further adieu I turn it over to Melanie. I thank you so much for agreeing to serve this great country and to serve the great community that is small business in America. Thank you, Senator.

Chairman KERRY. Thank you very much, Mr. Administrator.

[The prepared statement of Mr. Barreto follows:]

STATEMENT OF HECTOR BARRETO
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION

SBA'S FISCAL YEAR 2003 BUDGET REQUEST

FEBRUARY 27, 2001

Mr. Chairman, Senator Bond, 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) 2003. To paraphrase President Bush, there are no Democratic solutions to small business issues, nor are there Republican solutions. There are only *solutions*. Year after year, the Members of the Senate Committee on Small Business and Entrepreneurship have recognized this and have consistently reached consensus instead of conflict. America's small businesses are better off today as a result of your working together.

I know we can continue that tradition. It is in this spirit that I respectfully ask for your support of the President's Budget Request of $798 million for the SBA. The President has increased our budget to provide more than $17 billion in capital and technical assistance to small businesses and disaster victims so that the SBA may continue making services available to those of our Nation's 25 million small businesses which need them most. This budget reflects the President's commitment to economic security through its support of small businesses and their creation of new jobs.

Before we continue our discussion on FY 2003, please permit me to take this opportunity to commend the many federal disaster relief workers for their role after the attacks of September 11. In the immediate aftermath of this unprecedented attack on American soil, the SBA mobilized both its disaster and district office employees, including its resource partners, to open some 40 temporary disaster assistance offices in New York City and Virginia.

Through the dedication of SBA employees, we have delivered as of February 25 more than $523 million in disaster loans nationwide – $295 million in disaster loans in New York, $11 million in Virginia and $217 million elsewhere. I am pleased to say that the SBA was on-site very quickly after the attacks and in many cases canvassed areas door-to-door south of Canal Street and beyond, distributing disaster loan applications to small business owners. These dedicated men and women of the SBA have worked tirelessly to distribute applications, answer questions, verify damages, and process and disburse loans. Placing the success of the mission above any personal consideration, the SBA family continues to work long hours without seeking recognition for their tremendous efforts. The SBA also rolled out an unprecedented nationwide expansion of the Economic Injury Disaster Loans (EIDL) Program to help those small businesses across the country adversely affected by the events of September 11. I am proud to lead an Agency that employs such loyal, dedicated and caring employees. I know that you join me in this sentiment and share our commitment to continuing this important work on behalf of impacted small businessmen and women across the country.

Disaster assistance, however, is but one of many ways through which the SBA reaches its customers. The 2003 budget includes specific requests for the following programs, a few of which I will highlight in greater detail later in my testimony:

- $4.85 billion in program level, through an appropriation of $85.360 million, for the 7(a) Loan Guaranty Program;
- $4.5 billion in program level, without taxpayer subsidy, for the 504 Certified Development Company Program;
- $7 billion in program level, without taxpayer subsidy, for the Small Business Investment Company (SBIC) Program;
- $1.67 billion in program level, without taxpayer subsidy, for the Surety Bond Guarantee Program;
- $26.6 million in program level, through an appropriation of $3.726 million, for the Microloan Direct Program.
- $17.5 million for Microloan technical assistance;
- $795 million for disaster relief;
- $1.1 million for Advocacy Database and Analysis;
- $500,000 for Ombudsman and Regulatory Fairness Boards;
- $750,000 for Veteran's Outreach;
- $1.5 million for initial preparation for a National Conference on Small Business;
- $3.6 million for 7(j) technical assistance;
- $500,000 for the Pro-Net Small Business Database;
- $500,000 for Small Business Innovation Research (SBIR) Program technical assistance;
- $3 million for the Federal and State Technology (FAST) Program;
- $2 million for the HUBZone program;
- $88 million for Small Business Development Centers (SBDC) grants;
- $3 million for the Paul D. Coverdell Drug-Free Workplace Program;

- $5 million for the Service Corps of Retired Executives (SCORE);
- $475,000 for Business Information Centers (BICs);
- $12 million for Women's Business Centers (WBCs);
- $750,000 for the Women's Council;
- $1 million for Native American outreach; and
- $3.1 million for United States Export Assistance Centers (USEACs).

Our budget request will allow us to continue meeting demand for the 7(a) Loan Guaranty Program, the flagship program of the SBA, through FY 2003, and we are working on ways to improve the program to ensure we can meet demand in future years. Let me further elaborate.

In FY 2003, for the first time in many years, the SBA and the Office of Management and Budget (OMB) worked to make the subsidy rate calculation method more accurately reflect changes in the program. In furtherance of that goal, we have contracted with the Office of Federal Housing Enterprise Oversight (OFHEO) to create an econometric model for the subsidy rate for FY 2004. In the interim, our calculation for FY 2003, which weights Preferred Lender loans in proportion to participation in the program, produced a subsidy rate estimate of .88 percent – a 20 percent decrease. With the requested appropriation of $85.36 million for FY 2003, this would have resulted in a 9 percent increase in loan volume, producing a record level of loan authority. However, P.L. 107-100 subsequently reduced the fees paid by borrowers and lenders for a two-year period beginning in FY 2003, resulting in a doubled subsidy rate of 1.76 percent and a 7(a) program level of $4.85 billion.

While this statutory change poses a significant challenge to the SBA in satisfying increasing loan demand, we believe that other recent legislation will help us meet this demand. The combined budget authority for the 7(a) program in FY 2002 is $175 million. This figure includes the SBA's annual appropriation of $78 million, the supplemental appropriation of $75 million, and carryover from FY 2001 of $22 million. While the supplemental 7(a) program is executed at an different subsidy rate than the regular program (1.67 percent versus 1.07 percent, respectively), the total 7(a) loan guaranty authority for FY 2002 comes to $13.84 billion. Adding this amount to the FY 2003 program level of $4.85 billion produces a two-year program level of $18.69 billion, or an annual average of $9.34 billion, which is consistent with historical levels. In FY 2003, we anticipate converting approximately $3.3 billion in guaranty authority from FY 2002 into $2 billion in guaranty authority under the subsidy rate created by P.L. 107-100. This would support a nearly $7 billion program level in FY 2003.

The current challenge creates an opportunity to examine the 7(a) program to ensure its continued relevance in the current marketplace for both lenders and borrowers. One of our concerns is the relationship between the 7(a) program and the 504 Certified Development Company. 7(a) and 504 in some ways compete with each other instead of complementing one

another. The 504 program, formed specifically for job creation, provides financing for real estate and major fixed assets. We have determined that the 504 program is not reaching its full potential. For example, over 40 percent of loans provided under 7(a) are large real estate loans, many of which 504 could easily accommodate.

Steering those larger real estate loans to 504 will assist our goal of reducing the average 7(a) loan size from roughly $244,000 per loan to a more desirable average of around $175,000. Our aim is to increase the proportion of smaller loans, the type of loans often the most difficult for small businesses to receive. We are looking at ways to encourage lenders to make smaller loans.

Doing so will enable us to better provide loans to small businesses – the businesses that represent 99 percent of all employers and 52 percent of the private workforce. An *Inc* 500 study has shown that a majority of the fastest growing companies started with less than $50,000 in capital. Reducing the average loan size in the 7(a) program will make the SBA an even greater engine in creating jobs and providing for the nation's economic security. We are confident that our lending partners will work with us to ensure that more businesses which need 7(a) assistance will be able to receive it.

As I said before, the 504 program provides financing for major fixed assets. Its statutory purposes are to foster economic development and to create or preserve job opportunities by providing long-term financing for small business concerns. The program will provide up to $4.5 billion in lending in FY 2003, up from a lending volume of $2.3 billion in FY 2001. This renewed emphasis on 504 allows the SBA to support a significantly higher number of the larger loans critical to the success of small businesses needing financing for real estate and long-term capital equipment purchases. This program has not required a subsidy from taxpayers since FY 1996, as an on-going fee paid by small business borrowers fully funds it. We propose to slightly adjust this fee in FY 2003 from .410% to .425% to allow the program to continue without taxpayer subsidy.

As with 7(a), we have contracted with OFHEO to create an econometric model for the 504 program's subsidy rate. We will implement the results in FY 2005, a year later than implementation for the 7(a) subsidy rate, to give us time to evaluate the results of using this model on the 7(a) program before using it in additional programs.

As we attempt to implement these and other reforms to our finance programs, we will work closely with you in Congress to ensure that these programs retain their crucial role in assisting small businesses.

In keeping with the President's management goals, we are restructuring the workforce at the SBA. We are investing in the workforce now to produce future savings. This agenda includes increasing telecommuting, consolidating servicing contracts to reduce overhead and rent and improving productivity through the use of technology.

Managing for results – working with partners to ensure the effectiveness of programs – is another of the President's management goals. I have taken steps to deal with the management

issues raised by the General Accounting Office and the Inspector General. We have also addresses the President's E-Government initiative to create a government that is more citizen-centered. The budget request includes $5 million for SBA's leadership role in the Federal Government's interagency effort to build a website that reduces the burden of wading through laws and regulations. Small business owners have a labyrinth of laws and regulations to negotiate on the Federal, state and local levels and no guide to assist them in determining which are applicable. This Business Compliance One-Stop on the Internet will build upon BusinessLaw.gov, which the SBA has already implemented, and will provide those small business owners simpler, 24/7 access to the vital information they need to run their businesses.

Additionally, in order to ensure security of its computer systems and to provide small businesses the access described above, the budget request includes $2.8 million to support SBA's upgrade of its information technology infrastructure. The SBA will also begin implementation of an e-documents management system to assist with the retention and administration of the SBA's electronic records. The budget request includes $750,000 for that purpose.

This budget request includes $1 million for the new Native American Economic Development Program, an initiative to establish partnerships with tribes engaged in economic development activity. According to the 2000 Census, there are over 2.5 million Native Americans and Alaskan and Hawaiian Natives, and the average unemployment rate on reservations in 1999 was 43 percent. The SBA is dedicated to ensuring that all Native Americans who seek to create, develop and expand small businesses have full access to the necessary business development and expansion tools available through Agency programs. This program is a comprehensive initiative designed to meet specific cultural needs and to result in small business creation. This initiative will make funding directly available to tribes to assist in economic development and job creation.

In addition to our initiative to assist Native Americans, the SBA operates two complementary programs to serve businesses which face difficulties due to particular economic and social reasons or geographic locations. The 8(a) Business Development Program assists the development of small companies owned and operated by socially and economically disadvantaged individuals. Eligible companies may be awarded set-aside federal contracts and other business development assistance. The number of contracting opportunities for small businesses has declined overall, including for 8(a). In response to that disturbing trend and to other concerns about the program, I ordered a review. While we have not completed that review, I can tell you that we will continue to work on ways to streamline the process required of applicants and to increase our efforts to obtain contract assistance for the program. We are also looking at ways to better define the individual needs of individual 8(a) firms and to increase their access to technical assistance and procurement opportunities.

Many 8(a) companies are located in areas designated as HUBZones (Historically Underutilized Business Zones) by the SBA's program which encourages economic development in distressed areas through federal contract award preferences for qualified small businesses located in such areas. Procuring agencies have not used this program to the extent possible. We are looking at a variety of ways to increase the federal contracts that these businesses receive as well as increasing their private sector contracting opportunities.

It is our goal to treat the 8(a) and HUBZone programs equally and not as competitors. I believe that they are both powerful tools that will help the federal government meet and exceed its small business contracting goals.

The SBA will also be implementing the President's management agenda, an agenda that includes restructuring our workforce, increasing the use of competitive sourcing, expanding use of technology and managing for results. Part of our operating expenses will increase as a result of shifting $18 million in pension and health benefits that were previously part of the Office of Personnel Management's budget.

The Loan Monitoring System (LMS) will allow us to do on-line monitoring of our lending partners. The SBA has contracted with KPMG to review the planning steps taken to ensure compliance with the law and remain consistent with the project parameters. In March we will receive a detailed outline of options. These options will allow the SBA to implement various modules, depending on cost benefit. Currently the vast majority of our oversight is done through on-site reviews of our lending partners and contracted audits for the Small Business Lending Companies.

SBA has taken steps to strengthen and institutionalize its "Information Technology [IT] Planning and Investment Control Process" to improve selection and control of IT projects in a portfolio environment and to improve formulation of the IT budget. Doing so will help the SBA meet the requirements of the Clinger-Cohen Information Technology Management Reform Act.

I want to briefly discuss two programs which we do not plan to fund in FY 2003. The Program for Investment in Microentrepreneurs (PRIME) mirrors the existing Microloan technical assistance program. We cannot justify funding two nearly identical programs. Our Microloan intermediaries and our non-loan technical assistance providers already offer a full range of services for prospective microloan borrowers and microentrepreneurs. Their resources combined with the array of other programs such as WBCs and SBDCs will fully meet the needs of microentrepreneurs.

The Business Learning, Innovation, Networking and Collaboration (BusinessLINC) Program replicates other existing SBA technical assistance programs that foster mentor-protégé relationships, as well as programs at NASA and the Department of Defense. BusinessLINC also duplicates SBA's 7(j) management and technical assistance program, which provides contract grants and cooperative agreements to organizations that provide direct assistance to small and emerging businesses. Finally, BusinessLINC was designed to provide small businesses with an online information source and database of companies interested in mentor-protégé programs. We can achieve those goals through existing BICs, WBCs and PRO-Net, as well as through the private sector.

The SBA will celebrate its 50th anniversary in July 2003. In its half-century in existence, the SBA has assisted hundreds of thousands of businesses in their formative stages. Many of those companies have names with which all of you here are quite familiar – names like Federal Express, Intel and Nike, to name just three.

We are working hard at the SBA to make certain that the Agency retains its leadership position as it looks forward to another half-century and will continue to provide crucial assistance to the next Federal Express or the next Intel. As I have taken a close look at our programs and services throughout my first year as Administrator, I have seen what the SBA can do and what the SBA needs to do to keep its programs in tune with the ever-changing economy.

We cannot do this alone. I know that I have spoken with some of you individually, but I want to take this opportunity while we are all together to enroll you in these efforts.

As I mentioned at the beginning of my testimony, the SBA's FY 2003 request is a good one for small businesses and offers a beginning point for us to work in tandem with our partners in Congress to ensure that the SBA remains an effective, relevant agency that provides twenty-first century service for the small business community's needs. We ask for your support for this budget. Thank you for the opportunity to appear here today. I will be happy to answer your questions.

Chairman KERRY. Ms. Sabelhaus, welcome.

TESTIMONY OF MELANIE R. SABELHAUS, NOMINATED TO BE DEPUTY ADMINISTRATOR FOR THE U.S. SMALL BUSINESS ADMINISTRATION

Ms. SABELHAUS. Thank you very much. Thank you, Hector.

Good morning, Mr. Chairman, Senator Bond, and Distinguished Members of this Committee. I am honored to appear before you today as the President's nominee for Deputy Administrator of the U.S. Small Business Administration. This is truly an amazing moment for me.

I am very enthusiastic about this opportunity to serve at the SBA. I have experienced what many entrepreneurs are searching for, and that is living the American dream, turning idea into a prosperous business while employing people in my community. It was a thrill of a lifetime. Now I have this incredible opportunity to work with entrepreneurs around the country to help them turn their visions into reality.

Throughout my journey in business I have always been surrounded by a very close, supportive family and loyal, dedicated friends many of whom are here today. These are the most important people in my life. They have shared my vision and they have served as my sounding board for years. I would like to thank them for coming today.

My. husband Bob who is my best friend in the world and my advisor in my life. He is here alone with my son Bobby who came in from Los Angeles. Bobby has always made me very proud of him. My daughter Alexa is unable to join us as she is in the middle of mid-terms at Boston University, but hopefully she is watching the webcast today because I just slipped her that information. She is certainly here in my heart as are my parents, Nick and Millicent Radlick ages 90 and 88—I have got some good genes in my family—who are truly the wind beneath my wings.

I grew up in Cleveland, Ohio, and I was the only child of a steelworker and a homemaker; my role models in my life. They worked very hard for their communities and their family. My father was a councilman for 30 years. He was president of his local union, Steelworkers Union 188, for 29 years, and the backbone of the Serbian Orthodox church. My parents taught me early on that hard work, dedication, high moral values, and passion are the keys to one's life mission. It is important to give back everything you can to your community. They taught me to dream big, to become whatever I wanted to be. They wanted me to have everything that they did not.

I graduated from public high school in a class of 1,000 students as a class officer, then earned a bachelors of science degree at Ohio University in Athens, Ohio. It was at Ohio University that I met my husband Bob. He was the busboy in my sorority house, and I knew he had potential right off the bat.

Ms. SABELHAUS. We married right after college and we have been dreaming and——

Chairman KERRY. Good strategy.

[Laughter.]

Ms. SABELHAUS. We have always dreamed together and our drive has been as a team as we turned all of this into reality.

Mr. Chairman, I had the great opportunity of working for I think one of the finest corporations in the world, and that is the IBM Corporation. It provided me with excellent management training. I held various management positions for IBM and had the opportunity to help develop an entrepreneurial venture called the IBM Product Center which consisted of retail stores that sold directly to the consumer. This opportunity gave me firsthand experience on building a business from the ground up.

I continued to work for IBM throughout the United States, moving several times with Bob as he was relocated and promoted in a financial service company. With every relocation our family would be put up in a hotel for several months. Even though we were in New York at the Plaza Hotel for 2 months, it was still not very cost effective, and it was very inconvenient. Personally, it did not work for the family.

Experiencing this time after time exposed me to a need in the marketplace that I thought I could fill with my own business. With Bob's encouragement I started Exclusive Interim Properties, Limited, literally in my own backyard. We provided totally furnished properties, condominiums, townhomes, apartments, homes, to relocated executives, people on temporary assignments, professional athletes, the movie industry, anyone who needed short term housing. They were turnkey. Everything was included.

It was because of my IBM marketing training, it really provided me with the foundation for my business to get started and to grow it and allow the concept to take off. My company had offices in Baltimore and Washington, D.C. We employed 75 people, including sales professionals, accounting, administrative, personnel, and housekeepers. At one point when quality was an issue in housekeeping I ended up finding the head housekeeper from the White House under the Reagan Administration. She ended up working for me and she took me to the next level of quality. So that was my background with the White House.

But with 650 furnished units my company generated $10 million in revenue and we started with $15,000. Truly, it was probably the greatest job of my life, building that small business. My highly motivated employees were passionate about what their jobs were, whether it was selling, cleaning units, whatever it might be, and their efforts were key to making Exclusive Interim Properties successful. We all engaged in community activities, networking. We felt very strongly about giving back.

I discovered that several other entrepreneurs around the country were doing exactly what I was doing. So four of us gathered together, decided to consolidate, and we became Bridge Street Accommodations. We went public with an IPO in 1997. I became vice president of global sales and I was involved in acquisitions in London and Canada until I retired in 1998.

For the past 3½ years I have been dedicated to my community, including raising money for charitable institutions, and focusing on women's and children's issues, both of which are passions of mine. I would like to help lead the way for women entrepreneurs. There are currently an estimated 6.2 million majority-owned, privately-

held, women-owned businesses in the United States. They account for 28 percent of all the privately-held firms. These firms generated $1.5 trillion in private sales and employ 9.2 million workers. These firms are growing at twice the rate of all U.S. firms, and this is just the tip of the iceberg.

If I am confirmed I will take all that I have learned over this long 32 years of business experience and help any small business I can to succeed in this country. I am excited about the prospect of working closely with you, the President's Administration, and my agency partners. I hope you will allow me to have this opportunity. I will gladly answer any questions you have relating to my confirmation. I thank the President for his confidence in me and I thank this Committee for its time and effort on my behalf. I have to truly remark, this is probably one of the most humbling experiences in my life.

Thank you.

[The prepared statement of Ms. Sabelhaus follows:]

STATEMENT OF MELANIE R. SABELHAUS
NOMINEE FOR DEPUTY ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION

FEBRUARY 27, 2001

Good morning Mr. Chairman, Senator Bond and distinguished members of this committee. I am honored to appear before you today as the President's nominee for Deputy Administrator of the U.S. Small Business Administration. This is truly an amazing moment for me.

I am very enthusiastic about this opportunity to serve at the SBA. I've experienced what many entrepreneurs are searching for, the American Dream – turning an idea into a prosperous business while employing people in my community. It was the thrill of a lifetime. And now I have this incredible opportunity to work with entrepreneurs around the country, to help them turn their visions into reality.

Throughout my journey in business, I have always been surrounded by a close supportive family and loyal dedicated friends, many of whom are here today. These are the most important people in my life. They have shared my vision and have served as my sounding board for years. I would like to thank them for coming today. My husband Bob, who is my best friend in the world and my advisor in life, is here, along with my son Bobby, who is here from Los Angeles. Bobby has always made me proud. My daughter Alexa is unable to join us, as she's in the middle of mid-terms at Boston University. She certainly is here in my heart, as are my dear parents Nick and Millicent Radlick, ages 90 and 88, who are truly the wind beneath my wings.

I grew up in Cleveland, Ohio, the only child of a steelworker and homemaker – my role models in life who worked hard for their community and family. My father was a city councilman for 30 years, president of his local union for 29 years and the backbone of his Serbian Orthodox Church. My parents taught me early on that hard work, dedication, high moral values and passion are the keys to shaping one's life mission. They taught me to dream big and to become whatever I wanted to be. They wanted me to have everything they didn't.

I graduated from a public high school in a class of 1,000 students as a class officer and then earned a BS at Ohio University in Athens, Ohio. It was at Ohio University where I met my husband Bob. He was the bus boy in my sorority house, and we married right after college. We have always shared dreams and the drive to make those dreams reality.

Mr. Chairman, I had the opportunity to work for IBM, one of the finest corporations in the world, for 15 years. IBM provided me with excellent management training. I held various management position for IBM and had the opportunity to develop an entrepreneurial venture, the IBM Product Center, which consisted of retail stores selling directly to the consumer. This opportunity gave me first-hand experience in building a business from the ground up.

I continued working for IBM throughout the United States, moving several times with Bob as he was relocated with Merrill Lynch. With each relocation, our family would be put up in a hotel for several months, which was very costly for the company and terribly inconvenient for us personally. Experiencing this time after time exposed me a need in the marketplace that I could fill with my own business.

With Bob's encouragement, I started Exclusive Interim Properties, LTD, literally in my own back yard. We provided totally furnished accommodations, condominiums, townhomes, apartments and homes for relocated executives, individuals on temporary assignment, professional athletes, persons in the movie industry and anyone else who needed short-term, furnished housing. It was my IBM marketing training that provided the foundation for my business to get started and to grow, allowing the concept to take off. At our peak my company had offices in Baltimore and Washington, D.C. and employed 75 people, including sales professionals, accounting and administrative personnel and housekeepers. With the 650 furnished units, my company generated $10 million in revenue.

The greatest job of my life was building this small business with my team. My highly motivated employees were passionate about their jobs, and their efforts were key to making Exclusive Interim Properties a huge success. We were all engaged in the community, networking professionally and volunteering. We had a mission to give back as much as we could. Most importantly, we were a team!

Several other entrepreneurs around the country were doing exactly what we were doing, and we decided to consolidate, becoming Bridge Street Accommodations. We went public with an IPO in 1997, and I became Vice President of Global Sales. I was involved in acquisitions in London and Canada until retiring in 1998.

For the past three-and-a-half years, I have dedicated my time to my community, including raising money for charitable institutions and focusing on women's issues, both of which are passions of mine. I would like to help lead the way for woman entrepreneurs. There are currently an estimated 6.2 million majority-owned, privately-held women-owned businesses in the United States, and they account for 28% of all privately-held firms. These firms generate $1.5 trillion in private sales and employ 9.2 million workers. These firms are growing at twice the rate of all U.S. firms, and this is just the tip of the iceberg!

If confirmed, I will take all I have learned over the past 32 years and help all small businesses around the country succeed. I am very excited about the prospect of working closely with you, the President's administration and agency partners. I hope you will allow me to have this opportunity. I will gladly answer any questions relating to my confirmation that you may have. I thank the President for his confidence in me, and I thank this Committee for its time and effort on my behalf.

Biography
Melanie R. Sabelhaus

227 Greenspring Valley Road
Owings Mills, MD 21117
(410) 363-7670

Ohio University
1970 BS Journalism

IBM Corporation
Management Career 1972-1987
Market Support Manager- Miami FL
District Marketing Support Manager- Cleveland OH
Regional System Support Manager- Washington D.C.
Product Center Manager- Miami FL & New York City, NY
IBM Headquarters White Plains, NY

Exclusive Interim Properties LTD
Founder and Chief Executive Officer 1986-1997
Offices in Baltimore, Maryland and Washington D.C.
EIP LTD provided high quality totally furnished and accessorized corporate accommodations for the relocated executive, individuals on temporary assignment, professional sports teams, movies, etc. For one night stays to several months. A turnkey environment complete with maid service and many amenities in over 600 units in the Maryland - D.C. - Virginia areas.

Bridgestreet Accommodations
In 1997, EIP LTD consolidated with four other interim housing providers to form Bridgestreet Accommodations. The company did an Initial Public Offering and went public on the NASDAQ. Bridgestreet serves global corporate clients in over 40 cities, 5000 furnished properties, including Canada and London.

Vice President, Global Sales, 1997-1998 until retirement
Bridgestreet Board of Directors – A public company

Boards/Organization
Americas Bank Board, World Trade Association Board, College Bound Board, Ohio University Advisory Board, 1990,91.92, Johns Hopkins Children Center Telethon Chairman. 1998 Family Tree Sports Ball Co-Chairman, Maryland Top 100 Business Women, Entrepreneur of the Year Finalist, MD, 2000-2001 Founder and Chair of the United Way of Central Maryland's Alexis de Tocqueville Society Women's Initiative, Baltimore Museum of Arts Decorative Arts Accessions Committee, 2001 Chair, Nantucket Historical Association Antiques Show, 2001-2002 Alzheimer's Association of Central Maryland Board of Directors, 2001-2005 United Way of Central Maryland Board of Directors, 2001 Co-Chair National Summit on Women in Philanthropy , Presidential Nominee, Deputy Administrator Small Business Administration, Washington, D.C.(awaiting Senate confirmation)

Awards
Outstanding Achievement in Business Award, Ohio University 1997.
Philanthropist and Volunteer of The Year for Maryland 2001. Awarded by the Association For Fundraising Professionals.

Chairman KERRY. Thank you very, very much, Ms. Sabelhaus. The nomination itself should be the humbling experience. We hope your appearance here is not humbling at all. We want you to enjoy it. We are delighted to welcome your family and your friends, and particularly your husband who—I do not know why I did not think of that, busboy at a sorority. I have heard it all now.

[Laughter.]

Chairman KERRY. We are delighted to have you here and I am thrilled to hear that your daughter is up in Massachusetts and I hope she is enjoying B.U. It is a great institution.

Ms. SABELHAUS. She loves it.

Chairman KERRY. Let me ask you, if I may, a few *pro forma* questions that we need to ask of all nominees. First of all, is there any interest which you have had to divest yourself of or any kind of conflict that has appeared that you have needed to deal with in order to assume these responsibilities?

Ms. SABELHAUS. None.

Chairman KERRY. Is there any that you could imagine in terms of any interests that you have at this point in time that might conflict of any of the responsibilities of the job?

Ms. SABELHAUS. No, sir.

Chairman KERRY. Do you agree, without any reservation, to respond to any request to testify before any duly constituted Committee of the Congress if requested to do so, and also to direct your employees to do so if a request came?

Ms. SABELHAUS. Absolutely.

Chairman KERRY. Likewise, do you agree to respond to any inquiries made by any of the duly constituted Committees were they to communicate to you and to request information, that you would make that information available?

Ms. SABELHAUS. Yes.

Chairman KERRY. Thank you very much. You heard the testimony of the previous panel and you have heard the concerns of the Committee today, and I think your experience is a terrific one. That really is the American dream. But you said something in the course of your testimony that really struck me which was, it was my experience at IBM that really helped me prepare for this. Obviously you have heard a number of people here testifying about a lot of folks who do not have experience at IBM who want to start a business. Was your $15,000 privately raised or contributed?

Ms. SABELHAUS. Yes, privately.

Chairman KERRY. A lot of folks who do not have that access either, who need that sort of start. I wonder just in view of what you heard and understanding these responsibilities, what is it that you hope—what is your goal here? When you finish this job, whenever that might be, what would you like to look back and say, "This is what we accomplished?"

Ms. SABELHAUS. Very honestly, when I was asked if I would be interested in this opportunity I said, "If I take a job like this I want to truly make a difference." When I look at the team that we have at the SBA, and I have to comment, I think Hector and I are going to be a fabulous team, and the entire group at the SBA quite frankly surprised me: highly motivated, dedicated, running great operations. I look at this as a partnership.

But when I look at all the different outreach programs, and there is many. You can begin with, No. 1, when we just listen to the SBDCs, when you listen to the SBICs and you look at the outreach and what we are doing to help people who do not have the means, did not have the education perhaps that I had, this is so important, to mentor them, to teach them, to educate them, to lead the way, be the example. We have so much of that available today at the SBA.

I think what is also important is we have got to teach them how to gain the access to capital. They need to know how to do that. As we were just talking about earlier, many do not even utilize it. It is critical.

So my role, I firmly believe, will be to get involved, asking small businesses, listening to them, what is it that you want; what do you need? Then I will respond, working with Hector and the entire team. But there is a great organization at the SBA. We have to utilize it to its maximum, and I intend to do everything I can to help make that possible in all aspects.

Chairman KERRY. Have you had a chance to familiarize yourself at all with the SBA's fiscal year 2000 report and performance plan? Are you familiar with that? Under the Government Performance and Results Act there is a performance plan that is required. You have not had a chance to—

Ms. SABELHAUS. I am familiar with it; not in depth. But I think that it is an excellent idea. In the public sector, obviously this is what we use to give definition to what the job is, what your goals and objectives are, and then of course to look at what the results are.

Chairman KERRY. I would like you to take a look at that. I have to leave the record open for a few days for my colleagues who may or may not want to submit some questions. In the course of that you might just give us a sense of how you think, and perhaps in some discussion with the Administrator you might be able to move forward on that. I do not want to tie us up with it now necessarily. Unfortunately we are running over time in terms of other obligations. So I am sure you will be sad to hear we are going to truncate this.

As you know, and there was some discussion of this earlier, SBA has proposed rules that are going to change the relationship between the 8(a) business development program and the HUBZone program which Senator Bond and I co-sponsored together. I do not know if you have had a chance to familiarize yourself with those two programs but I hope you would make it a top priority and perhaps you might share with us your sense of at least how you approach that.

There has been a decline particularly felt by the minority community as a consequence of what is going on. One of the great efforts of this country is obviously to try to maximize the full opportunity by taking the least advantaged segments of our community, if you will, and providing opportunity, and it pays off in a hundred different ways. Could you just share a sense with us of how you might approach the 8(a) and SDB firms and their program?

Ms. SABELHAUS. The first thing when I think about 8(a) I think of probably one of the best ways for small business to grow is to

have the Federal Government as a customer. I knew that at IBM. It was huge for us, absolutely huge. The 8(a) program is the backbone, absolutely, of Government contracting, and it is the oldest program. I am very proud to hear that, it is 30-years-old.

But today when you look at this program you look at it and you say, “All right, what are the good things about it, what are the things we need to fix?” First of all, everyone says it has got to be quicker and faster. Again, that is dealing with individuals that could be women, minorities, underutilized areas. We have to review it and we have to fix it.

I know that we have right now a group that is looking at the process so that we can improve it. I cannot get into details with you but I am aware that we are working hard to do that. We have to. It has got to be an accessible program and it has to be one that we can get results on it, and I am committed to working with the Administrator and with you all to make that happen.

Chairman KERRY. We will look forward to that. We look forward to working with you on it. It is a very important program. We have not met our small business procurement goals and we need to.

Likewise, you heard the folks who were here at the table earlier, only one has met the Administrator.

Mr. BARRETO. Actually, I think I have met with, at least by phone or in person with all of them. But we always look forward to having more meetings and to——

Chairman KERRY. Let me ask you this. We do not want meetings for the sake of meetings. I think those are the bane of all of our existence. But I do think outreach is important and I would like to ask from you a commitment that you will reach out to these practitioners, to these working elements of the SBA community and to try to be as inclusive as we can in the budget formulation process and in the implementation. I think it will eliminate just a huge number of headaches for all of us.

There is nothing we would like more in this Committee than to take 5 minutes to be able to say to you, “This is a terrific budget and we look forward to implementing it, end of issue”. Hopefully we can get there. It would be good.

Ms. Sabelhaus, as you know we are just waiting for some final documentation, I think, that is supposed to come in. As soon as we can get that I want to try to schedule a vote on your nomination. So the sooner we can tie up those loose ends we are prepared to proceed forward as rapidly as we can. Do you have a sense of when we could have that or when we might?

Ms. SABELHAUS. That was submitted last night so right now it is in your hands.

Chairman KERRY. Good. That is super.

You yourself have been terrific in your involvement in philanthropic efforts and taking the fruits of your labor and turning them into other kinds of public good. I know you are particularly sensitive to women-owned business possibilities. Could you just share with us any special plans or initiatives you might have for the Office of Women’s Business Ownership?

Ms. SABELHAUS. I am very interested in the aspect, the way we are dealing right now in the field with taking women from welfare to work. I had never heard that phrase before, but I think it is fan-

tastic. To listen to the results that were reviewed today is evidence of the strength of this program.

I would like to also look at women that are in business that need to move to the next level. Those women that need a great marketing plan, that need to understand global marketing. I would like to be able to work with our centers, and I know we have the availability, and collaborate. If someone is at a big center, we need to send them to the SBDC for a marketing plan.

But I would like to get hands-on. I would like to be out talking to these centers specifically about women's issues, being sure that they are trained and knowledgeable, and in addition to that, our district offices, because to me that is where the rubber meets the road. That is where we are reaching out within these communities and we have got lots of district offices.

But I would like to help women move to the next level. Give them their start and then keep them moving: mentoring, knowledge, development.

Chairman KERRY. Ms. Sabelhaus, you are an energized, articulate addition to this team and we welcome that. I look forward very much to working with you. As I said, we will try to expedite this as rapidly as possible, and I thank you for your patience. I thank your family and friends and your husband for spending time here and being supportive. We look forward to it.

We stand adjourned. Thank you.

[Whereupon, at 11:37 a.m., the Committee was adjourned.]

MARKUP

TUESDAY, MARCH 12, 2002

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

The Committee met, pursuant to notice, at 11:20 a.m., in room S–216, U.S. Capitol Building, The Honorable John F. Kerry, Chairman of the Committee, presiding.

Present: Senators Kerry, Levin, Harkin, Wellstone, Cleland, Landrieu, Cantwell, Carnahan, Bond, Burns, Bennett, Snowe, Enzi, Fitzgerald, Crapo, Allen, and Ensign.

Chairman KERRY. The Small Business Committee is convened for the purpose of voting out the nomination of Melanie R. Sabelhaus to be Deputy Administrator at the Small Business Administration. The clerk will call the roll.

The CLERK. Mr. Levin.

Senator LEVIN. Aye.

The CLERK. Mr. Levin, aye.

Mr. Harkin.

Senator HARKIN. Aye.

The CLERK. Mr. Harkin, aye.

Mr. Lieberman.

Chairman KERRY. Aye by proxy.

The CLERK. Mr. Lieberman, aye by proxy.

Mr. Wellstone.

Senator WELLSTONE. Aye.

The CLERK. Mr. Wellstone, aye.

Mr. Cleland.

Senator CLELAND. Aye.

The CLERK. Mr. Cleland, aye.

Ms. Landrieu.

Senator LANDRIEU. Aye.

The CLERK. Ms. Landrieu, aye.

Mr. Edwards.

Chairman KERRY. Aye by proxy.

The CLERK. Mr. Edwards, aye by proxy.

Ms. Cantwell.

Senator CANTWELL. Aye.

The CLERK. Ms. Cantwell, aye.

Mrs. Carnahan.

Senator CARNAHAN. Aye.

The CLERK. Mrs. Carnahan, aye.

Mr. Bond.

Senator BOND. Aye.

The CLERK. Mr. Bond, aye.

Mr. Burns.
Senator BURNS. Aye.
The CLERK. Mr. Burns, aye.
Mr. Bennett.
Senator BENNETT. Aye.
The CLERK. Mr. Bennett, aye.
Ms. Snowe.
Senator SNOWE. Aye.
The CLERK. Ms. Snowe, aye.
Mr. Enzi.
Senator ENZI. Aye.
The CLERK. Mr. Enzi, aye.
Mr. Fitzgerald.
Senator FITZGERALD. Aye.
The CLERK. Mr. Fitzgerald, aye.
Mr. Crapo.
Senator CRAPO. Aye.
The CLERK. Mr. Crapo, aye.
Mr. Allen.
Senator ALLEN. Aye.
The CLERK. Mr. Allen, aye.
Mr. Ensign.
Senator ENSIGN. Aye.
The CLERK. Mr. Ensign, aye.
Mr. Chairman.
Chairman KERRY. Aye.
The CLERK. Mr. Chairman, aye.
Nineteen ayes, zero nays.
Chairman KERRY. Thank you very much.
[Whereupon, at 11:25 a.m., the Committee was adjourned.]

NOMINATION REFERENCE AND REPORT

PN1223

AS IN EXECUTIVE SESSION,
SENATE OF THE UNITED STATES,
November 15, 2001.

Ordered, that the following nomination be referred to the Committee on Small Business and Entrepreneurship:

* Melanie Sabelhaus, of Maryland, to be Deputy Administrator of the Small Business Administration, vice Fred P. Hochberg.

March 12, 2002.

Reported by Mr. Kerry with the recommendation that the nomination be *confirmed*.

* signifies the nominee's commitment to respond to requests to appear before any duly constituted committee of the Senate.

POST HEARING QUESTIONS

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Legislative Affairs

March 21, 2002

Honorable John F. Kerry
Chairman
United States Senate
Committee on Small Business and Entrepreneurship
428 Russell Office Building
Washington, DC 20510

Dear Mr. Chairman:

Enclosed, please find SBA's response to the Senate Committee on Small Business and Entrepreneurship's post-hearing questions, dated February 27, 2002. I respectfully request that the responses be included in the record.

A duplicate copy is being provided to the Ranking Member.

Please let me know if we can provide anything further. I can be reached at (202) 205-6700.

Sincerely,

Richard Spence
Assistant Administrator for
Legislative Affairs

Enclosures

U.S. SENATOR JOHN F. KERRY
Questions
Hearing on SBA FY 2003 Budget Request and
Nomination of Melanie Sabelhaus to be SBA Deputy Administrator
February 27, 2002

QUESTIONS FOR ADMINISTRATOR BARRETO

SUBSIDY RATE ASSUMPTIONS

Question 1: This year SBA and OMB assumed default rates of almost 13 percent for the 7(a) loan program and about 8 percent for the 504 program.

Do you think those loans will actually have that many defaults or close to that many defaults?

Answer: As has been discussed with the Committee in the past and again this year, the current subsidy rate models which the Administration uses for the 7(a) and 504 programs use an average historical default calculation. These subsidy rate calculations look back 16 years, using actual default data from FY 1986 to FY 2001, and projects this data forward based on the average maturity of these programs. This methodology basically assumes that "the future repeats the past."

This is a valid methodology and has been tested and audited several times over the past several years. A better method of projecting defaults exists, and that method is an econometric model. SBA is committed to using this new methodology for the 7(a) program in FY 2004 and for the 504 program in FY 2005.

Question 2: Last October, before hundreds of 7(a) lenders at the 2001 Annual Conference for the National Association of Government Guaranteed Lenders (NAGGL) in San Francisco you gave a keynote speech in which you talked about the subsidy rate problems. You said that the Administration, specifically Dr. Lloyd Blanchard then of OMB and now of SBA, "is committed to creating a more accurate model to benefit both small business and lenders alike. With the new anticipated calculation, we believe the subsidy rate could be cut in half."

What model and assumptions were used to arrive at the conclusion that the rate could be cut in half?

On February 8, 2002, Dr. Blanchard promised my staff that he would provide the Committee with the model and assumptions that cut the rate in half so that we could gave GAO review it. Two weeks ago we followed up on that request with your office of Congressional and Legislative Affairs. We have still not received that information. We ask that you provide it to us by March 15, 2002.

Answer: To say that a "model" or specific set of assumptions was used to produce the 0-0.5 percent prediction for SBA's 7(a) business loan program subsidy rate is greatly exaggerated. The range was based on preliminary information available at the time of the NAGGL meeting.

At that time, SBA and OMB were still in the middle examining the effect of different program variables. As SBA was using a partial data set to test possible methods, SBA still needed more data and the updated cashflows showing loan performance in FY 2001. SBA also did not yet have the economic assumptions included in the President's Budget that feed into the subsidy rate calculation.

7(A) LOAN GUARANTY PROGRAM

Question 3: On page 352 of the President's budget, it says the 7(a) Loan Program is "moderately effective" and cites that "declining defaults have improved performance but lender oversight needs to be improved." Then on page 64 of the budget book you gave to Congress, there is no increase in staff to do oversight. That begs the question:

If oversight is the problem, why didn't you allocate more resources to do it? Even if you cut loan dollars in half, with a plan to make more smaller loans, one would assume you would have about the same amount of oversight responsibilities.

Answer: The "moderately effective" refers to the fact that the loan program only provides approximately 42,000 loans annually while the overall small business population in the country is 25 million. While this program is certainly not meant to serve all small businesses, it does not appear to be serving certain segments of the small business community who historically have had the hardest times receiving the financing they need to start and grow their businesses. With respect to lender oversight, SBA is working to better use technology and more effectively use its staff resources in providing enhanced oversight. Almost a year ago, an Office of Lender Oversight was established to serve as a focal point for coordinating the Agency's lender oversight activities. SBA is working now to complete the staffing of that office.

Question 4: Even if the 7(a) program could be better, as all programs can be improved, it doesn't seem to be "moderately ineffective." By SBA's numbers, 7(a) loans created 7,000 jobs in my state last year. In Georgia, 7(a) loans created 11,273 jobs. In Minnesota, the loans created 7,4000 jobs. Across the nation, it created almost 1 million jobs.

How do "oversight" deficiencies render the 7(a) loan program "moderately ineffective"?

Answer: The "moderately ineffective" refers to the fact that the loan program only provides approximately 42,000 loans annually while the overall small business population in the country is 25 million. While this program is not meant to serve all small businesses, it is still not serving certain segments of small entrepreneurs who need access to capital.

SBA's lending oversight efforts are designed to ensure continued integrity of the program.

Question 5: Mr. Barreto, your budget blames Congress for the reduction in 7(a) loan dollars because we passed legislation to reduce the fees SBA charges borrowers and lenders to get and make loans. The budget estimates that in FY2002, the 7(a) program will return $179 million to the Treasury, and the 504 program, which as you note in your testimony is funded all through fees, will return $110 million. The GAO report found that 7(a) borrowers and lenders were over-charged more than $1 billion.

Part A: Do you think borrowers and lenders are paying too much?

Answer: Currently, through a yearly appropriation of funds for the 7(a) program, all taxpayers, along with the approximately 50,000 borrowers and lenders who use the program, pay for the costs of the program. The goal of this Administration is to obtain as accurate as possible calculation of the subsidy rate. While predicting the future can never be an exact science, the goal is to have the re-estimate figure as close to zero as possible. SBA's recent External Agreement with the Office of Federal Housing Enterprise Oversight (OFHEO) for an econometric model for the 7(a) program is evidence of SBA's effort to obtain a more accurate subsidy rate calculation.

Part B: Do you think it is right for the Government to knowingly over-charge taxpayers for the service?

Answer: No.

Question 6: To compensate for the reduced capacity to make 7(a) loans, the Administration plans to "steer" larger real estate loans to the 504 program, and reduce the average size of 7(a) loans. While most of the members of the Committee support making more small loans, most do not support "steering" potential 7(a) loans to the 504 program. However, just to understand what you're proposing:

Part A: How would the Administration identify potential 7(a) loans that are targeted for shifting to the 504 program?

Answer: SBA believes that it is important to make the best possible use of the program authority available in both the 7(a) and the 504 program. By doing this, SBA will be able to increase its overall lending capacity by approximately $2 billion a year. SBA believes that it can increase 504 program volume by better marketing this program with lenders, particularly current 7(a) program participants. SBA does not plan to steer borrowers to the 504 program on an individual basis. Rather, SBA will work to educate lenders and borrowers about the multiple lending options available to them and to point out the situations where the 504 program may be a better fit for certain types of applicants. This is especially true for those applicants needing larger amounts of money where the loan proceeds will be used to purchase or renovate real estate.

Part B: How would you reconcile the statutory requirements for 504 loans (job creation requirements among others) to allow the full range of 7(a) loans to be processed through the 504 program?

Answer: SBA knows that not every 7(a) loan involving fixed financing will be eligible for the 504 program. However, it is important to remember that there is a high degree of flexibility in the 504 program regarding the achievement of the program's statutorily mandated economic development purposes. For example, the job requirement can be met on a portfolio basis for a Certfied Development Company (CDC) rather than on a loan-by-loan basis. (That is, if certain other specified public policy purposes are met, an individual loan does not have to meet the job creation requirement so long as the CDC's overall loan portfolio meets that requirement.) SBA intends no change to the current requirement that, in order for a loan to be made through the 504 program, it must meet the statutory, regulatory and policy requirements of the program.

Part C: It appears that the real effect your proposal would have is to shrink access to capital in real dollars for small businesses in this country. Some of the proposal is simply unworkable in a year's time frame. If this is the case, will you still promote it?

Answer: SBA is not shrinking access but is rather attempting to shift emphasis to provide the same access with limited resources. SBA believes it can provide access to capital to more entrepreneurs by promoting smaller loans. In FY 2001, 35.6% of the dollar volume of loans went to loans of over $750,000, yet only 7.5% of the total number of borrowers obtained loans of that size. SBA has already begun to work on a number of options for encouraging smaller loans. SBA is working with the lending community to evaluate current loan products, with the goal of reaching more businesses in the most effective way possible.

<u>MICROLOANS</u>

Question 7: You have testified that the Administration wants to increase the number of small loans made through SBA's programs. Last year, funding for microloans decreased from almost $30 million to $25.5 million. This year you increase the request to $26 million, which is less than the level in FY2001 and far less than the $35 million the industry recommended to meet demand. For only $1 million more, you could have provided that level.

Why didn't the Administration increase capacity for this program that only focuses on smaller loans?

Answer: The Administration's FY 2003 request of $26 million for the Microloan Direct Loan Program is higher than the amount Congress appropriated for the program in FY 2002. SBA wants to assist the maximum number of small businesses by making full use of the resources

available to it. This includes having a variety of loan products and delivery methods available to meet the varied needs of these businesses. For instance, the 7(a) Community- Express Program has a maximum lending cap of $250,000. While the lenders in this program are 7(a) participant lenders, in a manner similar to the microloan program, the lenders are required to provide necessary management and technical assistance to special needs borrowers, especially those located in low and moderate income areas. Other 7(a) loan products, including SBAExpress and the Low-Doc program, have maximum lending caps of $150,000, and loans as small as a few thousand dollars have been made through both programs.

By encouraging a downward average in 7(a) loan amounts , SBA intends to increase the numbers of borrowers that, through SBA's programs, can find access to critically needed financing . SBA also intends to encourage business owners that may have accessed the Microloan Program in the past, as well as those who are already at a level to obtain financing through more traditional lenders, to go directly to these lenders. This will allow former Microloan Program clients to move into the 7(a) program, thus concentrating valuable Microloan lending and technical assistance resources on those smallest of businesses that are most in need of microenterprise development services.

Question 8: We have reports from intermediaries that since October 2001 they have had requests for microloan money into the SBA for FY2002. They have been told they can't get the loans because SBA is out of money and can't disburse the loans.

Is SBA out of microloan money halfway through FY2002? If not, why are these intermediaries being denied their additional loans? Please explain.

Answer: SBA is not out of money for lending and is in fact making new loans as well as disbursing "draw downs" on existing loans. To SBA's knowledge, no eligible and qualified microloan intermediary has been turned down on any requested loan financing. SBA would be interested in the source of the reports so that SBA could address any such issues directly.

Question 9: The budget cuts funding for microloan technical assistance to $17.5 million. That's not even enough to service the outstanding loans.

How do you expect intermediaries to service borrowers with outstanding microloans and also service new ones with that level of funding?

Please calculate how that money would be used for the roughly $100 million in loans outstanding and the $26.5 million in new loans you have proposed in the budget.

Answer: The Administration's FY 2003 budget proposal of $17.5 million is consistent with that provided by Congress in FY 2002. In order to more effectively use technical assistance dollars, SBA, in collaboration with the microenterprise industry, is working to develop new strategies for distributing technical assistance funds to microlenders. SBA intends to make the technical assistance program more cost-effective by creating a grant funding distribution process that will

encourage microloan production and better support the microlenders that have higher levels of lending activity. SBA looks forward to working with Congress as it seeks to develop a more appropriate distribution process. With appropriate changes to the technical assistance delivery structure, SBA believes that the $17.5 million requested for microloan technical assistance will be sufficient to allow the program intermediaries to provide the level of technical assistance so necessary to the success of the small businesses targeted by the program.

BUSINESSLINC

Question 10: By law, the SBA is required to make grants under the BusinessLINC program. On February 20, 2002, the SBA sent up a request to reprogram all the FY2002 money, $2 million, appropriated for the BusinessLINC program in order to fund the HUBZone program and the PRO-Net program. For two years in a row, the Administration has eliminated funding for this program, and Congress has put it back. We are now about six months into this fiscal year and the solicitations for grants should already have been well underway.

If we are to work together, why would the Administration turnaround and siphon off all the money for this program after Congress restored it? Why didn't you take it from another part of the budget? What are your intentions for implementing the program for the remainder of FY 2002?

Answer: Congress did not fund the President's request for the HUBZone program in FY 2002. Subsequently, Congress directed SBA to seek a reprogramming from non-credit programs to fund the HUBZone program. The Administration thinks that the BusinessLINC program duplicates programs in existence. Grants from FY 2001 were issued in September 2001. SBA will be evaluating the effectiveness of these grants during FY 2002.

PRIME

Question 11: As with the BusinessLINC program, for two years in a row, the Administration has eliminated funding for this program, and Congress has restored it. The budget contends that this program is duplicative.

Please list the programs, "federal, state, local, and private sector programs, including SBA's microloan program and Small Business Development Centers," that you believe duplicate the PRIME program, and then describe each of the programs as you understand them and just how they duplicate the Program for Investment in Microenterprises.

Answer: Perhaps the easiest way to explain this is that PRIME essentially duplicates part of the authority SBA already has under Microloans. PRIME is based on providing training to micro-entrepreneurs, regardless of lending. Under the Microloan program, SBA has the same ability to

provide management, technical assistance, and training to micro-entrepreneurs regardless of their borrowing. Right now microlenders can use 25% of their grant funds to help micro-entrepreneurs who are prospective borrowers. Many of these microentrepreneurs may not borrow, but they are aided regardless of lending just like in PRIME.

SBA also makes grants through the microloan program to non-lending intermediaries who provide assistance to micro-entrepreneurs. This assistance provides training, and technical assistance just like PRIME. The Microloan program does have a heavy emphasis on lending, but it stills serves the same training and technical assistance purposes as PRIME.

As far as similarities, they first target similar recipients. PRIME targets "disadvantaged entrepreneurs, low-income or very low income persons, economically disadvantaged," while the microloan program targets "women, low-income, veteran and minority entrepreneurs."

The two programs also share the purpose of technical assistance to entrepreneurs. PRIME gives "technical assistance" to microentrepreneurs through intermediaries, regardless of borrowing, as defined as "assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services" in Sec. 172(12) of the PRIME Act. The microloan program also gives "technical assistance" to microentrepreneurs regardless of borrowing, as defined as "marketing, management, and technical assistance to assist low-income entrepreneurs ...obtain financing" in Sec. 7(m)(1)(A)(iii)(III) of the SBA Act. There does exist a slight difference between the two programs in terms of technical assistance. PRIME has no lending aspects, and its training and assistance of entrepreneurs covers 75-85% of funds, while microloan technical assistance is mostly lending related. Its non-lending technical assistance is limited, with only 25% assistance provided to prospective borrowers or limited grants to non-lender intermediaries.

Finally, the programs are similar in their capacity building for intermediaries. The microloan program allows SBA to provide up to 7% for technical assistance for intermediaries to ensure that such intermediaries have knowledge and skills for microlending. PRIME similarly allows use of 15% or more of grants to provide training and capacity building services for microenterprise development organizations to develop microenterprise training and services. PRIME does provide funds of up to 15-25% for training and assistance of microenterprise development organizations, while microloan capacity building is for microlending institutions only, up to 7% of total funding.

In FY 2001, an Interagency Workgroup on Microenterprise Development published "Crossing the Bridge to Self-Employment: A Federal Microenterprise Resource Guide." This guide describes the 13 agencies that "provide training and outreach programs" to the microenterprise industry. According to the guide, "many microenterprise programs offer training in critical business skills." A copy of the publication is attached to this response for your use (**see Attachment A**).

504 LOAN PROGRAM

Question 12: The subsidy rate calculation is a problem for this program because it is wholly funded by participant fees (CDC lenders, banks and borrowers). This year the fees went up despite the fact that the default and recovery rates are known to be better than the model predicts.

Part A: Because the subsidy rate model has not been corrected in the 504 program, the fees needed to fund the program increase for FY 2003 from .410% to .425%. This means that even more will be returned to the Treasury once re-estimates are made in later years. Knowing this, how does SBA and OMB justify an increase in fees?

Answer: SBA's prediction of default and recovery rates is based on the average performance of the portfolio in these areas from FY 1986 to FY 2001. The result in the model for FY 2003 was a reduction in the default rate from 8.41% to 8.32%, a reduction in the collection rate from 67.27% to 58.21%, and a reduction in the expense rate from 40.35% to 38.24%. In addition, other model variables, such as the Treasury discount rate, were updated, resulting in a "net" change in the overall subsidy rate of .10%. Since this program is self-funding through fees, the on-going fee needs to be increased from .410% to .425%, or 1.5 basis points, to retain a 0% subsidy rate and no need for new appropriations.

Part B: The default rate for 504 loans in FY 2003 is set at 8.3% when the President's own budget notes that the cost of annual defaults is only $60-$70 million, which works out to 3.5% of the average program size for the last several years ($2 billion). How can SBA and OMB justify such an inflated default rate, when it is contradicted in the same budget document?

Answer: The reference made in the budget document on page 49 under SBA's section on erroneous payments does state that defaults amount to about $60-$70 million annually. This has been SBA's most recent experience with defaults in this program, and SBA used this metric as a reference point to determine the probable level of erroneous payments for its goal setting.

The subsidy rate calculation process uses average defaults over a much broader time period (FY 1986-2001) to achieve better predictability when viewing anticipated program performance into the future. Predictions based only on the most recent performance experience of the program would not be credible. It is appropriate to use performance data that spans many years and includes varying economic cycles to enable a prediction 15 to 20 years into the future. SBA has committed to further improvements to itssubsidy rate methodology through the use of an econometric model for this program in FY 2005.

Part C: It's obvious that these subsidy rates are not accurate and are overcharging borrowers and lenders significantly. What are your plans for addressing this problem

promptly? FY 2004 for the 7(a) program and FY 2005 for the 504 program are simply not soon enough.

Answer: It is true that recent subsidy re-estimates in the 7(a) and 504 programs have returned funds to the Treasury.

SBA has committed to a two-part strategy of subsidy rate improvements in both programs. These strategies overlap for efficiency of process and to ensure accuracy of results. For the 7(a) program, an interim model was used for FY 2003 that weighted PLP versus non-PLP loan performance. This model resulted in a modest initial reduction in the subsidy rate from 1.07% to .88%, or a 20 percent reduction. The second step of this plan is to develop an econometric model for FY 2004. That plan is being executed at this time.

For the 504 program, SBA has committed to undertake a similar interim model for the FY 2004 budget, with the second step being the development of an econometric model for FY 2005.

The rules under which SBA operates and accounts for loan subsidies following Federal Credit Reform guidance do not allow for an adjustment to the subsidy rate after it is published in the President's budget, absent legislative changes. This precludes SBA from making any further changes to the FY 2003 published subsidy rates. Therefore, the first opportunity to re-examine the 504 program rate is with the FY 2004 budget. It is also logical and practical for SBA to complete its econometric work on the 7(a) program prior to starting a similar effort with 504. SBA wants to make sure it has fully tested the model and can validate its results. This means that 504 should logically follow the development of the 7(a) model, making it not prudent to fully develop its econometric model prior to FY 2005.

SALARIES AND EXPENSES

Question 13: The Committee needs clarification on the funding for travel and transportation of employees. The budget shows an increase of $4.1 million, up from $3.8 million. The footnote says this request "includes a *small* increase to restore these funds back to a more normal operating level, plus costs of proposed employee relocations.

That's more than double the current level. Exactly how much is needed for relocations if only a small amount is for restoration, and why so many relocations?

Answer: The $4.1 million increase for travel and transportation for FY 2003 included on page 63 of the budget includes $3,703,000 for relocation of employees and $401,000 for general inflationary increases. This inflationary increase of about 10% over FY 2002 is needed to restore back some of the reductions taken to this area in FY 2002 due to the under-funding of SBA's operating budget for normal travel. The actual travel obligations were $5,043,000 in FY 2001. Absent the relocation increase, this line is only $4,236,000 or $807,000 less than FY 2001. This still represents a 16% reduction from FY 2001.

The $3,703,000 included for relocation of employees is added to another $1,297,000 included under the Compensation and Benefits line to comprise SBA's request of $5 million for employee relocations as part of its restructuring and workforce transformation plan. This is explained more on pages 38-39 and summarized on page 70 in the budget.

SBA has determined that its workforce is not presently allocated in the appropriate manner to best serve its changing small business customer base or to match the changing nature of its work. In order to redistribute this workforce to strategically target its principal goals and objectives requires in some cases that SBA assign individuals from their present duty location to another in the country. Federal travel rules require that relocation expense be paid when these moves are in the best interest of the government. SBA's experience is that these moves can vary in cost but would average about $65,000 per employee. Therefore, this request would allow for the strategic assignment of about 100 employees during FY 2003. This is only 3.5% of SBA's non-disaster workforce.

<u>MISCELLANEOUS</u>

Question 14: On page 350 of the budget, its says "Historically, SBA's lending programs served less than one-tenth of one percent of the nation's small businesses annually and provided less than one percent of annual small business lending." It goes on to say that in order to ensure greater access to capital, the Administration will explore things such as a program that requires states to put up money. I have a few comments about this.

As head of the SBA, if you want to increase lending, why not require more funding to increase capacity and get more lending out there?

States are out of money in this economy. How are you going to get money from them?

Answer: SBA's proposal requests a $7.4 million increase in the appropriation to gurantee loans for the 7(a) program over the amount provided in FY 2002. This is about a 9.5% increase. SBA's plan calls for making maximum use of the program levels available in both the 7(a) and the 504 program. Given the other demands being made on the Nation's budget, including the costs of fighting the war against terrorism both in the Middle East and at home, SBA believes that it was a responsible and reasonable request.

SBA is just beginning to explore whether and how state programs can best work in combination with the SBA programs. As SBA conducts research on this project, SBA will determine whether the existing level of funding available through state programs would be adequate to make it cost-effective to leverage resources available through these programs.

SALE OF DISASTER LOANS THROUGH ASSET SALE PROGRAM

Question 15: Some of my colleagues have expressed concern about the SBA's Asset Sale program to this Committee and also to the SBA. Last fall, Senator Dorgan tried to halt the sale of disaster loans through an amendment added to the FY2002 Senate Commerce, Justice, State and Related Agencies Appropriations Bill. Although his amendment was not included in the final bill, a number of Members have remaining concerns about the Asset Sales program. I joined Senator Dorgan and a number of my colleagues in sending a December 13, 2001, letter to you asking the SBA to make some changes to the Asset Sales Program to address the concerns of disaster victims whose SBA disaster loans have been sold and have suffered undue hardship. Unfortunately, the response we received on January 29, 2002, did little to assure me that the SBA fully recognizes the impact of selling disaster loans on disaster victims. Specifically, the letter noted that there were a "few instances where the borrowers were not satisfied with the final decision of the purchaser." Judging by the call we got from Senator Harkin's state office last week, "a few" is relative.

Can you please present the Committee with details of each of these instances so that we can decide if we feel the borrower was treated fairly?

Answer: Because the asset sales program was implemented approximately two-and-a-half years ago, SBA has sold approximately 110,000 loans and has received complaints from fewer than 200 borrowers regarding the post-sale handling of their loans. SBA immediately looks into each borrower complaint to ensure that the purchaser is adhering to the terms and conditions existing for the loan at the time it was sold or to any subsequent amendments to those terms and conditions. The asset sales team also carefully reviews each complaint to be sure that the purchaser's action was in accordance with commercially reasonable servicing practices. To date, while there have been cases where the SBA may have taken a different servicing action, SBA has found absolutely no instances in which the investors did not follow prudent servicing guidelines.

One complaint common to many borrowers who contacted SBA is that they were not able to purchase their own loan at the same discount given to the investors. In the marketplace today, it is a very common practice for a loan to be sold by the original lender and the borrower is rarely afforded the opportunity to purchase his/her loan at a discount. SBA's asset sales program is structured so as to maximize the return to the taxpayers, with fairness to the small business borrower. This includes having a professionally run program that relies on extensive pre-sale due diligence and highly competitive bidding. Under any asset sales initiative, the ultimate "discount" that a purchaser may receive (that is, the difference between the outstanding loan balance and the purchase price) cannot be known until all the bids are submitted and evaluated and a sale is approved. The discount is based not on individual assets but on a pool or portfolio, some performing and some non-performing.

Another common complaint that SBA has received is that the some purchasers have been unwilling to subordinate their junior lien positions to allow the refinancing of senior debt. When SBA researched each situation, it found that the borrower had requested a "cash out"

subordination based on an increase in the value of his/her property. The borrower typically wanted to refinance the senior lien debt in order to reduce the interest rate and/or to have additional funds available to pay off other debts. In most cases, the purchaser declined the request because it did not want to decrease the value of its interest in the collateral. It should be noted that it is SBA practice to evaluate subordination requests on a case-by-case basis, and that the Agency, like the loan purchasers, also typically does not allow "cash-out" subordinations. SBA's Standard Operating Procedures Manual (SOP 50-52) provides the following instructions to Agency staff: "Avoid subordination where the amount of senior liens becomes larger than it was at the time the loan was made." This policy is designed to protect the taxpayers from additional risk of loss.

Some borrowers have also complained that the purchasers have imposed fees in connection with their approvals of requested subordinations. Although SBA does not charge such fees, there is nothing in the loan documents that prohibit a purchaser from charging fees on certain actions requested by the borrowers. SBA has reviewed the circumstances related to these complaints and has concluded that the fees charged were commensurate with fees charged by other lending institutions, including SBA participant lenders.

There have also been a few cases where a borrower asserted that he/she had negotiated with SBA a compromise of his/her indebtedness before the loan was sold. In each case, SBA reviewed the files and spoke with our servicing personnel and determined that the compromises had not been approved. The purchasers have indicated a willingness to abide by any formal modifications the SBA made to a loan prior to a sale, but they do not believe that they are bound by any actions not concluded prior to the sale. SBA believes that this position is in accordance with common lending practices.

Finally, SBA has always made its best efforts to assure that borrowers receive timely notice that their loans will be sold. Despite this, however, SBA has had some complaints that borrowers did not receive their notices. Since SBA uses the services of a bulk mailing firm to send out the notices, in the past SBA has been unable to know more than that a borrower was on a list to receive the notice, and that the notice was reported as sent to the address shown. To avoid concerns about providing notice, SBA has new, strengthened procedures in place for notifying a borrower that its loan will be sold. In addition, for the sale currently underway and for all future sales, SBA will retain an actual copy of the notification letter mailed to the borrower.

SBIR & STTR PROGRAMS

Question 16: Mr. Barreto, during your confirmation hearing, I expressed concerns about the growing gap between resources and responsibilities in the Office of Technology, which is responsible for the SBIR and STTR program. I pointed out that over the last 10 years, the number of awards had doubled from \$502 million to \$1.2 billion. Over that same time, the budget was cut almost in half, from \$907,000 to \$530,000 and the staff was cut from ten to six. The staff is now down to five, which means the Agency has even fewer resources than at your hearing.

These programs are more important than ever as we explore cutting-edge technologies to improve national defense and home security. I would like to see the staffing restored, particularly if we are going to deliver the SBIR FAST program effectively.

Is there a plan to increase the budget and staffing for the Office of Technology in the budget for FY2003? If not, what will you do to rectify this situation?

Answer: SBA's FY 2003 budget did not reflect an increase in the staffing levels. However, the President's FY 2003 budget requests money for workforce restructuring as well as technology improvements. SBA is examining the most cost-effective and efficient methods of delivering high quality services to the Nation's small business community.

U. S. SENATOR CHRISTOPHER S. BOND
Questions
Hearing on SBA FY 2003 Budget Request and
Nomination of Melanie Sabelhaus to be SBA Deputy Administrator
February 27, 2002

CREDIT PROGRAMS

7(a) Guaranteed Business Loan Program

Question 1: Please provide the Committee with the Unweighted Purchase Rates and the Net Recovery Rates for the 7(a) Program starting with the 1986 cohort of loans.

Answer: Please see attached chart (**see Attachment B**).

Question 2: In the Administrator's testimony, he states that approximately $3.3 billion in guaranty authority will not be used in FY 2002. Why is there so much guaranty authority in FY 2002 with such a large shortfall in FY 2003?

Answer: The combined budget authority for the 7(a) program in FY 2002 is $175 million, which includes not only SBA's annual appropriation of $78 million but also the supplemental appropriation of $75 million, and carryover from FY 2001 of $22 million. This will provide $13.84 billion in lending in FY 2002.

SBA projects a loan volume of $10.5 billion in FY 2002, thereby leaving $3.3 billion worth of excess lending resources (at the older subsidy rate). Since the FY 2003 subsidy rate will be 1.76%, the excess authority will provide only $2 billion in lending in FY 2003. SBA's requested appropriation of $85.36 million for FY 2003 results in a 7(a) program level of $4.85 billion.

The Administration improved the subsidy rate calculation method for the 7(a) loan program to more accurately reflect historical loan performance. As a result, the interim calculation method, which weights Preferred Lender loans more favorably than others given the stronger underwriting standards and lower default history, produced a subsidy rate estimate of .88% – a 20% decrease. However, P.L. 107-100 subsequently reduced the fees paid by borrowers and lenders for a two-year period beginning in October 2002, causing the recently reduced subsidy rate to double to 1.76%.

Carryover from FY 2002 will increase the potential loan authority in FY 2003 to $6.85 billion. The President's request would have funded $9.7 billion in lending before the passage of P.L. 107-100. This would have been a record level of lending for the 7(a) program.

Question 3: For FY 2003, what do you estimate the total demand to be from small businesses for 7(a) loans.

Answer: SBA projects a demand for approximately 44,000 7(a) loans in FY 2003.

Question 4: In the Administrator's testimony, he states that 40% of the 7(a) loans are large real estate loans that could be switched to the 504 loan program.

- **What impact would this change have on the average loan size and volume mix?**
- **Should this change occur, what impact would it have on the credit subsidy rate as the result of the decrease in fees from the larger loans?**

Answer: If a significant number of large real estate loans were redirected to the 504 program, the average loan size for the 7(a) program would likely decrease. SBA would be able to approve a larger number of smaller loans with no need for additional funding. In addition, the volume mix would change as these larger loans tend to have longer maturities. Therefore, the average maturity would also decrease.

If fees to the program were to decrease and all other model assumptions remained unchanged, the subsidy rate would then increase.

Question 5: Please explain the drop in the recovery rate included in the 7(a) credit subsidy rate for FY 2003.

Answer: The recovery rate in the FY 2003 7(a) model decreased from 60.28% in FY 2002 to 57.95% in FY 2003. While SBA does not know the exact reasons for this decrease, SBA believes there may be a reasonable explanation.

SBA is executing more loans through its PLP, SBAExpress, and other expedited processing methods with its lenders. These same lenders are more frequently servicing and liquidating loans after SBA purchased the loans. In all cases with the SBAExpress program, and in some other cases the lenders will complete the liquidation/recovery process prior to SBA's default/purchase reimbursement under its guaranty agreement. In these cases, SBA is purchasing the "net loss," and there is no recovery subsequent to its recording of the default/purchase. This would result in a lowering of the actual defaults/purchases and a corresponding lowering of recoveries.

Question 6: Congress recently enacted legislation imposing a prepayment penalty on loans prepaid during the first three years following origination. Please explain why the 7(a) credit subsidy rate assumes an increase in prepayments for FY 2003?

Answer: Like other factors in the subsidy rate model, this assumption is based on actual data through FY 2001. The prepayment rate in the model was increased from 62.88% in FY 2002 to 64.94% for FY 2003. While SBA does not have a specific explanation as to why prepayments continue to increase despite the legislation that was passed. SBA believes that the timing of the prepayments indicate that the major increases occur in years after the third year from disbursement. In addition, in the past year or so, SBA has seen a decline in interest rates being charged to small business borrowers, and those able to secure less expensive financing are opting to. The legislation that was passed imposes a reduced prepayment penalty after the first and second years of a loan. Please note that the legislation was only enacted in December 2000.

<u>**504 CDC Loan Program**</u>

Question 1: Please provide the Committee with the Unweighted Purchase Rates and the Net Recovery Rates for the 504 Program beginning with the 1988 cohort of loans.

Answer: Please see attached chart (**see Attachment C**).

Question 2: The 504 credit subsidy rate for FY 2003 assumes a drop in the net recovery rate to 19.9 percent. As recently as FY 1996, the recovery rate was estimated to be 80 percent. Please explain this change in terms of the impact it has on the credit subsidy rate.

Answer: SBA has more and better data now to estimate the recovery rate than it did in FY 1996. The "net" recovery rate included in the FY 2003 subsidy model is 19.97%. This compares to a "net" recovery rate in FY 2002 of 26.93%. This "net" rate is comprised of two factors, collections and expenses. The model predicts a reduction in the collection rate from 67.27% to 58.21% and a reduction in the expense rate from 40.35% to 38.24%. These are based on actual loan performance from FY 1986-2001.

SBA prepared a sensitivity analysis for the FY 2003 subsidy rate model that shows that, as the collection rate changes by 1%, the subsidy rate changes by six basis points in the opposite direction, and as the expense rate changes by 1%, the subsidy rate changes by seven basis points in the opposite direction. These are not entirely linear, and other factors must also be considered to arrive at a final impact on the subsidy rate.

Since this program is self-funding, the annual fee is administratively adjusted to result in a 0% subsidy rate. A 1% change in this fee changes the subsidy rate by 316 basis points.

The collection and expense rates ("net" recoveries) are only a few of the factors that comprise the overall subsidy rate and therefore are not the only factors that influence the annual adjustment of the on-going fee. The default/purchase rate impacts the model by 70 basis points for each 1% change. The other fees associated with this program also heavily impact the rate. While "net" recoveries have declined, purchases have also substantially declined. The result of all of these factors has been a reduction in the annual fee of more than 50% over the past few years to its proposed level of .425% for FY 2003.

Question 3: At the same time the default rate for 504 loans has decreased significantly, the recovery rate has dropped to its lowest point. Since most liquidations and recoveries are managed by the SBA staff, why is the SBA projecting such a significant drop in the efficiency of its staff managing liquidations at the same time the agency is projecting a decrease in the default rate.

Answer: The recovery rate used in the subsidy rate model for the 504 program is based on the Agency's historical experience over a number of years, rather than focusing on recent program changes or innovations. In this case, SBA expects that 504 recoveries will increase from the amount used in FY 2003 to calculate the subsidy model to reflect the impact of asset sales and the transfer of much of the liquidation activity to the Certified Development Companies.

Question 4: The Administrator's testimony states that 40% of the 7(a) guaranteed business loans are large real estate loans, and he suggests that these loans could easily be made under the 504 program. This change would amount to nearly a tripling in 504 volume. At the same time, the Committee received reports that the SBA is short-handed and does not have the staff to process promptly the 504 loan packages it is currently processing. Please describe specifically how the SBA could accommodate this significant expansion of the 504 program.

Answer: SBA will be taking a two pronged approach to this issue. The first will be to expand use of the Premier Certified Development Company Program (PCLP). Through that program, a Certified Development Company that processes a loan under PCLP is authorized to make its own credit decisions without a second analysis by SBA. This relieves the workload burden on SBA field office staff. SBA expects that the Sacramento Loan Processing Center will be able to handle the increased PCLP volume since SBA believes that many of these loans would have been processed at the Sacramento center anyway through the 7(a) Preferred Lenders Program. The second part of this approach is the possible centralization of the processing of 504 loan applications. SBA is currently evaluating that strategy as part of its workforce restructuring initiatives.

Small Business Investment Company (SBIC) Program

Question 1: How many SBICs that have been licensed since 1992 have defaulted on their obligations to the SBA?

Answer: A total of six SBICs with a combined leverage of $110.8 million that have received their licenses since 1992 have defaulted on their obligations to SBA.

Question 2: How many Debenture SBICs have been licensed since 1992? How much leverage has been committed to these SBICs?

Answer: A total of 104 Debenture licenses (including three bank-owned licensees with $91,000,000 in leverage or commitments) have been issued since 1992 and 73 of these licensees have requested and received leverage or commitments of leverage in the amount of $2,217,495,000. An additional $122,045,000 in debenture leverage or commitments has been issued to SBICs ($17,745,000) and Participating Securities licensees ($104,300,000). Therefore, a total of $2,339,540,000 in debenture leverage or commitments has been issued to licenses approved since 1992.

Question 3: How many Participating Security SBICs have been licensed since 1992? How much leverage has been committed to these SBICs?

Answer: A total of 146 Participating Security licensees have been issued since 1992 with $6,643,199,000 in Participating Security leverage committed to them.

Question 4: Please explain how the SBA arrived at the estimated Purchase Rates (default rates) for the Debenture SBIC Program and the Participating Securities SBIC Program.

Answer: The subsidy rate model used for both SBIC programs is not the same type of model used for the 7(a), 504, disaster or microloan programs. SBA refers to the SBIC models as "expert opinion" models because they are based on assumptions provided by the program office experts and not on historical data.

The historical data for the Debenture SBIC Program shows that, prior to 1992, SBA experienced significant losses. This and other factors were the reasons for the major overhaul of this program in the mid-1990's. As such, the program is not considered to be the same now as it was prior to 1992, negating the use of historical data for subsidy modeling purposes. Since the Debentures have a 10-year maturity, there was and still is no solid actual performance basis for modeling the program. An expert opinion model therefore appeared to provide a reasonable proxy for the subsidy until such time as there was enough actual performance data to use in a forecasting model.

Similar to the above rationale, the Participating Securities SBIC Program was new to SBA in the mid-1990s. In this case, no historical data existed. Therefore, an expert model was also considered to provide a reasonable proxy for the subsidy.

Question 5: Using historical information, what would be the Purchase or Default Rate for the Debenture SBIC Program? for the Participating Securities SBIC Program?

Answer: The actual defaults under the Debenture and Participating Securities SBIC Programs have been as follows. These only reflect actual performance to date and do not include

projections of default that would be required in order to appropriately estimate the long-term costs of the Debentures and Securities issued to date.

Year of Approval	Debenture Defaults to Date	Securities Defaults to Date
FY 1992	$15,860,000	N/A
FY 1993	11,570,000	N/A
FY 1994	6,000,000	$0
FY 1995	3,930,000	14,250,000
FY 1996	2,680,000	12,000,000
FY 1997	10,155,000	27,200,000
FY 1998	23,635,000	11,300,000
FY 1999	17,500,000	18,525,000
FY 2000	0	0
FY 2001	0	0

SMALL BUSINESS PROCUREMENT

Procurement Center Representatives (PCR's)

Question 1: How many Procurement Center Representatives would be funded under the President's request? Please indicate how many of these positions would be full-time or part-time employees.

Answer: The President's request would fund 41 full-time Procurement Center Representatives (PCRs) and seven other PCRs who have collateral duties.

Question 2: Is this an increase, decrease or a no-change request compared to last year?

Answer: This represents no change since last year.

Question 3: How many Federal purchasing centers have a full-time PCR assigned to them? How many have no PCR at all?

Answer: Six Federal purchasing centers have a full-time PCR assigned to them. PCRs cover approximately $120 billion, or 60%, of total federal procurement budget and 255 federal procurement offices. One thousand seven hundred and sixty five federal military and civilian buying offices procuring only 40% of the federal procurement budget have no PCR coverage.

Question 4: As a general rule, how much does it cost annually to hire and train an additional PCR?

Answer: The average cost of hiring a new PCR is $92,321 (GS-13, step 5, plus 23% for benefits). Training is conducted by having the new PCR shadow a seasoned PCR for two one-week periods. The cost of sending a new PCR to observe the seasoned PCR is approximately $3,000 (two trips, each of one week's duration, at $1,500 each trip) plus the cost of the new PCR while he or she is training (approximately $3,550.)

<u>Commercial Market Representatives</u>

Question 1: How many Commercial Marketing Representatives would be funded under the President's request? Please indicate how many of these positions would be full-time or part-time employees.

Answer: The President's request would fund four full time Commercial Market Representatives (CMRs). SBA has approximately 10 employees who devote 75% or more of their time to this activity. There are 28 other employees who function as CMRs on a part-time basis.

Question 2: Is this increase, decrease or a no-change request compared to last year?

Answer: This represents no change since last year.

Question 3: Are CMRs assigned to Federal purchasing centers or are they assigned to the Federal prime contractors they are supposed to oversee? How many such posts have a full-time CMR assigned, and how many have no CMR at all?

Answer: CMRs are assigned to neither Federal purchasing centers nor Federal prime contractors. They are assigned to SBA offices. (Part-time CMRs who also function as PCRs may be assigned to a Federal purchasing centers such as a military installation.)

Question 4: As a general rule, how much does it cost annually to hire and train an additional CMR?

Answer: The average cost of a new CMR is $92,321 (GS-13, step 5, plus 23% for benefits). Training would be conducted by having the new CMR shadow a seasoned CMR for six months. The cost of sending a new CMR to observe on-site compliance reviews during this period would be approximately $3,000 (two trips, each of one week's duration, at $1,500 each trip) plus loss productivity.

OMBUDSMAN & REGULATORY FAIRNESS BOARDS

Question 1: Why is the budget request for the Ombudsman and Regulatory Fairness Board program (ONO) flat lined at the same 500,000 request that SBA has requested since the beginning of the program?

Answer: ONO has the necessary resources to effectively manage its program. The $500,000 request supports the operational expenses of the program. In addition, the agency provides support when necessary from other Headquarter offices such as the Offices of Communications, Field Operations, General Counsel and from various field offices for logistical support when hearings are held in their area.

Question 2: Why are there only six RegFair Hearings scheduled for this current fiscal year? Does this exclude much of the country from access to the RegFair process?

Answer: There are 21 RegFair Hearings and Roundtables scheduled for the current fiscal year. Attached is a list of RegFair Hearings and Roundtables that have been tentatively scheduled since October 2001 **(see Attachment D)**. The preliminary list was sent to the Chairman and Ranking Member of both the House and Senate in December of 2002. Additionally updated schedules for RegFair Hearings and Trade/Business Association Roundtables are posted on the ONO website (www.sba.gov/ombudsman). To date, ONO has held four RegFair hearings and four Trade/Business Association Roundtables in fiscal year 2002. One RegFair hearing and twoTrade/Business Association Roundtables were held during the week of March 11, 2002. There will be at minimum of ten RegFair hearing and ten Hearings and Trade/Business Association Roundtables, with one of each held in each region for FY 2002.

Question 3: Will it be possible to expand that number of RegFair Hearings in Fiscal Year 2003 within the budget request?

Answer: As set forth above, the current budget supports over 20 hearings and roundtables and will be sufficient to support the same amount in FY 2003.

Question 4: Please explain why the SBA is not conducting at least one RegFair Hearing in each region each year. How much would Congress need to appropriate in FY 2003 in order for the SBA to conduct a RegFair Hearing in each region? in each state?

Answer: ONO is conducting at least one RegFair hearing and one Trade/Business Association Roundtable in each region. To conduct a hearing in each state would require at least a doubling of the personnel and more than double the travel. It would also place additional time burdens on the RegFair board members, who are volunteer small business persons. A conservative estimate would be a minimum of $1.5 million.

SBIR PROGRAM

Question 1: Public Law 106-554 authorized the funding levels for the Federal and State Technology Partnership Program (FAST) at $10,000,000 in each of Fiscal Years 2001 through 2005. For Fiscal Year 2003, the Administration proposes to fund the program at $3,000,000. Please provide the justification for funding this program at 30% of its authorized level.

Answer: In FY 2002, the President requested $3.5 million. Congress appropriated $3 million. In FY 2003, the SBA requested level line item funding for the Federal and State Technology Partnership (FAST) Program for that which Congress appropriated for FY 2002. Since the FAST Program is one of SBA's newer programs, recipients need time to fully develop infrastructure in their states to assist small businesses. Therefore, SBA believes it is more feasible to fund the Program at the current level until the return on dollars spent can be completely analyzed.

Question 2: The Rural Outreach Program was established to provide technical assistance grants to states where the level of small business participation in the SBIR Program is underdeveloped. The Small Business Reauthorization Act of 1997 authorized the funding level of this program at $2,000,000 annually. For Fiscal Year 2003, the Administration proposes to fund the Rural Outreach Program at $500,000. At this level, participating states will receive less than $20,000 each in grants to implement the states' technical assistance programs to promote small business innovative research in rural states. Please provide the justification for funding this program at 25% of its authorized level. Your reply should include a detailed explanation of the SBA's expectations for the Rural Outreach Program.

Answer: In FY 2002, the President requested $1.5 million, while Congress appropriated $500,000. In FY 2003, SBA requested level line funding for the Rural Outreach Program. With the requested funds for this program, SBA anticipates that the states will continue to provide outreach, counseling and technical assistance to their respective small high technology businesses at a consistent level that will encourage firms to explore the SBIR and STTR programs. With the statutorily-mandated state matching funds for the Rural Outreach Program, state grant recipients will be able to continue to support small businesses through a variety of services. In addition, those states that are eligible to participate in the Rural Outreach Program will be in a position to submit very competitive proposals for the Federal and State Technology Partnership (FAST) Program. Those states that are successful winners under the FAST Program will have additional funding to offer additional services and benefits to small business. As with all of its programs, SBA is looking at the most effective and cost efficient ways to deliver this program.

INFORMATION TECHNOLOGY

E-Commerce Funding

Question 1: The proposal to spend $5 million on developing a better government Internet portal for small businesses is one that requires close scrutiny. This is primarily because in the past SBA has shown that it lacks the ability to define project goals and has shown that its appetite for funding is greater than its ability to complete the job. Please provide the Committee with a detailed project-spending plan showing goals, milestones, and all SBA resources to be applied to the project.

Part A: Could you assure the Committee that the Agency will not deduct a 10% administrative charge from any funds that Congress appropriates for this?

Answer: SBA will not deduct a ten percent administrative charge from the funds appropriated for this E-Gov initiative.

Part B: Should Congress decline to fund this program, will the SBA divert funds from other programs to fund this? If so, from what programs will SBA propose to re-direct funding?

Answer: If Congress declines to fund this program, SBA will evaluate its options at that time.

Part C: Should Congress choose to fund this program, what assurances can you provide the Committee that a high degree of oversight and care will be taken to ensure that the money isn't misused? Similarly, what will OMB's role be in providing oversight of the project?

Part D: To whom in the SBA management structure will the E-Government project manager report to? Please explain the role of the SBA CIO in overseeing this project?

Answers: Both SBA and OMB are taking extraordinary steps to manage and exercise more stringent oversight over this project to deliver within 24 months value-added service to American business owners. Three factors contribute to this situation: hiring a new COO in SBA, transparency and accountability focus of OMB's "E-Gov Czar," and continued GAO oversight of IT programs.

SBA management and oversight structure. Recently, the Chief Operating Officer is coordinating the work of the CFO, CIO, and Senior Advisor for E-Government. The SBA COO has assumed as one of his core responsibilities delivering the President's management reform agenda. The COO also coordinates the development of SBA's E-Gov policy and SBA's participation in the other eight E-Gov initiatives. These include Federal Asset Sales, E-loans, Disaster.gov, integrated acquisition portal development, streamlined international trade, electronic tax tools, online eligibility and online rule making.

The project plans also call for hiring a competent project manager to assist us in managing and overseeing project plans and expenditures. As part of the initiative, the Office will also hire a validation and verification contractor and a content and configuration manager to ensure that the project is well managed and that there is full documentation of ongoing efforts (see detailed plan and budget contained in the following answer).

OMB Oversight Governance Structure. The OMB Associate Director for Information and Technology and E-Government (ADITEG) is Mark Forman, who formerly worked for the Senate Government Affairs Committee, was intricately involved in the development of the Result Act, and worked for several results-driven IT firms. Working with the President's Management Council (PMC), Mr. Forman is responsible for providing the overall strategic goals, objectives and guidance for the E-government initiative and approving and recommending individual projects for funding in the President's Budget. He is committed to the process of project management, delivering results, and has notified all program managers that he intends to hold every agency accountable.

Procedurally, the ADITEG reviews the progress of each project on a monthly basis. He will brief the PMC quarterly on the status of the program and request PMC members assistance, when appropriate, to ensure the projects meet goals and objectives. The ADITEC will also terminate or restructure individual projects when they do not achieve a reasonable return-on-investment (ROI).

The ADITEG has also established a Portfolio Management Office (PMO), directed by the OMB Office of Information and Regulatory Affairs (OIRA), to provide direct daily management of the program and provide guidance and assistance to the individual project leaders by portfolio (e.g., citizens, businesses, governments, internal efficiencies). The PMO provides a monthly status briefing to the ADITEG, using the performance-based management system status reports on the overall program achievement, cost, schedule and performance goals. At least quarterly, the PMO will brief the ADITEG with the individual project managers present to discuss their project status. The PMO is responsible for providing overall guidance, assistance, coordination, review, and approval for higher level consideration of each project in their portfolio, ensuring that the e-government program achieves, on average, at least 90 percent of the approved cost, schedule and performance goals for all projects.

For still another level of counsel and checks and balances, the PMO will establish four Steering Committees (SC) to advise, assist, and coordinate the Interagency Project Teams in their assigned portfolio of initiatives to assist in achieving the goals and objectives expected within the budget limits. The SC's will be composed of representative from the Chief Information Officers, Chief Financial Officers, Procurement Executives, Budget Officers Advisory, and Human Resources Councils, along with other advisors and users, as necessary. Each SC will have an office within the PMO office with access to the performance-based management systems data for each project within the portfolio. With the Portfolio Manager and IPT Program Managers, the PMO will discuss the status of each project with the SC's at least monthly, or as necessary, to provide insight into the progress or problems within the various projects within the portfolio.

The Portfolio Managers will ensure the formation of an Integrated Project Team (IPT) for each project and meet weekly in person or by phone with each program manager. The IPT members will be assigned on a full time basis, for as long as needed on the project. The IPT will be responsible for managing the project, using a performance-based management system, from the planning phase through the operations (management-in-use) phase, to achieve, at least, 90 percent of the approved cost, schedule and performance goals for each phase of the project.

This management structure stresses the importance of linking the planning, funding, in-house implementation/procurement, operations, and delivery phases of the e-gov initiatives to the goals and objectives spelled out in the project business case and agency strategic and annual performance plans.

Part E: The funds requested for this project are considerable considering the lack of detailed plans that appear to exist. Please provide a detailed explanation to support the $5 million requested for this project.

Answer: The project management approach established by OMB requires each program manager to develop a detailed business case that describes the value proposition, modular development approach, milestones and proposed deliverables, and timeframes. It also includes a description of the proposed enterprise architecture, which includes a discussion of the business needs and rules, information architecture, systems applications, data structure, and technology delivery systems. The business case, summarized below, currently exceeds 40 pages and continues to be revised.

Business Compliance Assistance One-Stop Business Case Summary

Problem

The cost of complying with government-wide laws and regulations is too burdensome for American businesses. SBA's Office of Advocacy estimates that the regulatory burden on citizens is more than $800 billion, with nearly $500 billion borne by small businesses in 2000. This translates to roughly $7,000 per employee in firms with less than 20 employees. The following factors contribute to this overwhelming cost:

- *Volume*. The incredible number of existing, new and proposed laws and regulations makes it difficult for businesses to become self-educated about compliance issues and gather necessary forms, licenses, permits and other needed items.
- *Cost*. In addition to the unreasonable cost burden on businesses, regulatory enforcement and existing information services are expensive for government agencies.
- *Impact*. Approximately eight million firms have employees, with a total of 25 million businesses filing Schedule C tax returns with income from other sources than salaries. Each and every one of these businesses has to comply with government laws and regulations.
- *Multi-jurisdictional system*. Many businesses are subject to numerous agencies at the federal, state and local levels, all of which have separate requirements.

- *Inaccessibility*. The information needed by businesses is often difficult to find, existing in several different locations or at several Web sites, and is often presented in a manner that customers find difficult to understand.
- *Lack of smart online help*. Much of the information needed by businesses is still not accessible 24/7, and much of what is available is not solution-oriented.

Solution

Businesses need a single point of access – a "single face of government" — to all the laws and regulations that affect them. They also need online tools that help them know if they are in compliance as well as offer them compliance solutions. Because of the growing number of businesses with Internet access (57 percent of all firms with employees in early 2001), the Web is currently the most viable delivery channel for these services. A one-stop compliance site will significantly reduce the time needed to find information. For these reasons, OMB selected the Business Compliance One-Stop as one of 24 approved Administration ("Quicksilver") projects.

Features

The initiative will incorporate best practices from the private sector to build this tool; namely, SBA will build upon the experience gained in the construction of the gateway and transaction engine in the United Kingdom (e.g., cross-agency permitting). SBA will also use private sector best practices for knowledge management (i.e., individualized packaging of information to offer quick access to the right information for appropriate solutions). SBA will focus on improved navigation, personalization, expert tools, and interactive problem solving.

In particular, SBA will begin by targeting three industries, such as restaurants, truckers, and gas and oil companies, across four functional areas: environment, workplace health and safety, employment and taxation. SBA will demonstrate how a business in these sectors can register its business, get a tax ID number, apply for a building permit, receive electronically an employer identification number and file for a permit to use federal lands.

While better portal capability and consolidation of information is needed, the one-stop compliance site needs to provide real solutions to business problems within a local context in a minimal amount of time. Rules-based software, XML and other Web-based technologies make it possible to create a site with three core capabilities:

1. *Enable quick access to laws and regulations*. Site users can access appropriate laws and regulations in three clicks or less.
2. *Provide Compliance Assessment Aids*. Online tools can help businesses determine what laws and regulations apply to them and whether they are in compliance, and, more importantly, what to do and where to go to achieve compliance status.
3. *Perform online transactions*. Businesses will register online at the state level and apply and receive selected licenses and permitting at all three government levels.

Goal

- Make it easy for business to find, understand, and comply with pertinent laws and regulations at all levels of government.

Objectives

- Improve customer service by providing a *single access point* to business laws and regulations, licenses and permits, compliance assistance tools and hands-on help.
- Build results-driven government by building the site in less than two years.
- Create market-based government by using public-private partnerships (e.g., lawyers from every state, laws schools, Martindale-Hubbell) to build the site, relying on industry best practices and solutions (e.g., UK Gateway, Washington and Illinois online transactions).
- Expand SBA outreach by helping up to 25 million businesses, plus countless individual citizens find, understand, and comply with laws and regulations.
- Build effective partnerships by building horizontally integrated tools across the federal level and vertically integrated tools to help individual business industries (sectors).
- Compile and employ best practices learned in the building of the recently launched *BusinessLaw.gov* and existing online compliance guides built by other agencies.

Results

- Save businesses time and money by reducing the legal and regulatory burden.
- Increase business compliance, thereby reducing costs for enforcement/compliance activities.
- Transform the way SBA works by using technology to offer e-business solutions.

Governance Structure

- The managing partner for the project will perform project management and find private sector consultants to develop modules for the project, (e.g., permitting, compliance guides, and interactive tools) and oversee the effort (e.g., Microsoft, Accenture, Consad Research)
- Participating partners include EPA, DOL, OSHA, GSA, IRS, DOT, DOE, DOI, INS, Trade Associations and selected State CIOs (e.g., Washington, Illinois, New Jersey Mississippi).

Funding

SBA estimates it will cost $5.0 million develop this One-Stop. With the funding, SBA will build upon its legal and regulatory assistance site, *BusinessLaw.gov,* to create an intergovernmental portal that does three things: offer small firms access to governmental laws and regulations that impact them, provide compliance assistance digital tools, and offer online licensing and permitting. Funding will permit SBA to build the compliance assistance content and technical platforms, buy software that registers existing content by theme and facilitates site maintenance, create/buy a transaction engine to do the secure licensing, and support work in the state agencies working through the National Governor's Association.

Currently, SBA is negotiating modular roles for each of its partners, to include the Departments of Interior, Transportation, Energy, Labor (OSHA), Justice (INS), Treasury (IRS), EPA, and several states (e.g., Washington, Illinois, New Jersey). SBA will also work with law schools, private sector entities, and its resource partners, particularly the "compliance alliance" elements

of the SBDC network and business counselors throughout the country, to build compliance assistance tools and the means to conduct transactions electronically.

Activities and Funding:

Business Services/Products	FY 2002	Oct- Dec 02	Jan -Mar 03	Apr-June 03	Sum
General Management					
Create joint Program Office		$ 50,000	$ 50,000	$ 100,000	**$ 200,000**
Maintain and Transition BusinessLaw.gov	200,000	$ 50,000	$ 50,000	$ 50,000	**$ 150,000**
Hire Content and Configuration Manager			$ 100,000		**$ 100,000**
Work with NGA and 6 states		$ 50,000	$ 50,000	$ 50,000	**$ 150,000**
Design portal look and feel		$ 150,000			**$ 150,000**
Hire Project Mgmt Contractor		$ 50,000	$ 50,000	$ 50,000	**$ 150,000**
Document, Validate and Verify services		$ 100,000	$ 100,000	$ 100,000	**$ 300,000**
Marketing plan and implementation				$ 100,000	**$ 100,000**
Legal & Regulatory Information					
Do inventory/metatagging (agency costs)					
Pilot COTS Portal Maximizer		$ 225,000			**$ 225,000**
License software			$ 250,000		**$ 250,000**
Build Profiler/self assessment tool			$ 150,000		**$ 150,000**
Build guides and tutorials (agency costs)					
Build Personalized self service			$ 50,000		**$ 50,000**
Test with focus groups			$ 30,000	$ 30,000	**$ 60,000**
Compliance Assistance Expert Tools					
Develop IT & ERP Architecture		$ 200,000			**$ 200,000**
Develop metrics and survey methodology to measure success		$ 100,000		$ 50,000	**$ 150,000**
Data modeling/build 25 tools				$ 1,200,000	**$1,200,000**
Focus test tools		$ 30,000	$ 30,000	$ 30,000	**$ 90,000**
Business Registration/Transactions					
Transition Phase I to Phase II for Registry		$ 50,000			**$ 50,000**
Prototype City (Bellevue), State, Federal		$ 100,000			**$ 100,000**
Integrate 6 states and Fed EIN, Biz Name		$ 100,000	$ 100,000	$ 100,000	**$ 300,000**
Develop Trucker One-Stop with Illinois/DOT		$ 25,000	$ 25,000		**$ 50,000**
License ERP COTS Transaction Engine				$ 500,000	**$ 500,000**
Conduct focus sessions and surveys		$ 30,000	$ 30,000	$ 30,000	**$ 90,000**
Security issues and software		$ 300,000			**$ 300,000**
Sum	**$200,000**	**$ 1,610,000**	**$ 1,065,000**	**$ 2,390,000**	**$5,065,000**

Part F: Is it the Administration's intention to request additional funding for this initiative in future Fiscal Years? If so, how much money is SBA's portion of the E-government initiative estimated to cost and over how many years?

Answer: SBA will require approximately $250,000 annually for this initiative. The recurring costs after FY 2003 will include licensing for the navigation/search tool and transaction engine and maintaining the site. The cost for the navigation/search tool will amount to approximately $50,000 annually, $100,000 annually for the transaction engine, and approximately $100,000 for ongoing maintenance of the site.

Loan Monitoring System (LMS)

Question 1: In your written testimony you state that by March that you should have a detailed outline of options available to SBA. What is the expected time frame for the deployment of a final system?

Answer: SBA has contracted with KPMG Consulting to assist in re-scoping and re-focusing the Agency's LMS project. KPMG's report, which is due in late April, will evaluate and assess the original plan and its various components, identify possible options, and make recommendations. This assessment will define and estimate the cost of the various LMS components, thus assisting the Agency in establishing priorities for development and implementation.

Upon receipt of the KPMG Consulting report, the Agency will make policy decisions regarding the scope and objectives of LMS. At that time, SBA will develop an LMS project plan and timeline with milestones and deliverables. Implementation of the plan, however, will be contingent upon Congress' approval to expend previously appropriated funds on LMS.

Question 2: Please provide a detailed explanation of the steps taken by the SBA to ensure that the mistakes of the previous administration will not be repeated.

Answer: As indicated previously, SBA is re-scoping and re-focusing the Agency's LMS project. Once policy decisions are made regarding the scope of LMS, they will be clearly communicated throughout the Agency and resources allocated consistent with the policy determinations. In addition, a team of senior managers with cross-functional responsibilities has been formed to oversee the effort. This team will be accountable for successful accomplishment of LMS and will oversee the LMS development and implementation effort. The detailed project plan for LMS will provide an effective management tool for the senior management team to ensure that LMS is on target both functionally and administratively.

Question 3: Does the SBA have any indication as to how much new funding will be need to be appropriated in future year for the LMS?

Answer: The report from KPMG Consulting will provide an estimate of the cost of the various components of LMS for the Agency's use in setting priorities. At that time, SBA will have a better sense if additional funding will be needed in future years.

Question 4: The SBA budget submission touts as an accomplishment the implementation of "a pilot of electronic loan applications" despite the fact that SBA was informed by GAO that this system was in violation of the 8 mandatory planning steps of the SBA Reauthorization Act of 1997. What is SBA proposing to do to bring these so-called pilots into compliance with the 8 statutory planning steps?

Answer: In FY 2001, SBA initiated a prototype for a small number of PLP lenders to use a trial system to submit loan guarantee applications electronically via the Internet. Using the system, lenders used web-based screens to submit a standard set of data that was identified during SBA's business process reengineering efforts. The system was used to identify functional requirements and business rules for the data collected at loan guarantee origination. The prototype was successful in helping to validate system requirements and in generating interest among the lenders participating in the pilot. The prototype was suspended in late FY 2001 in response to a GAO finding in its report ("Loan Monitoring System—SBA Needs to Evaluate Use of Software," GAO-02-188) which stated that using the prototype was in violation of the eight mandatory planning steps. To address GAO's finding and recommendation, SBA has modified its independent verification and validation (IV&V) contract for the LMS project to conduct a formal evaluation of the prototype. The purpose of this evaluation is to determine if the processing performed by the prototype should be separated from the LMS, further developed, or put on the shelf until GAO concurs that SBA has finished the mandatory planning steps for the overall LMS project. The independent evaluation is scheduled for completion at the end of March 2002.

Computer Infrastructure

Question 1: How much is SBA proposing to spend in FY 2003 on improving its Information Technology infrastructure? How are the proposed funds to be expended?

Answer: SBA's FY 2003 budget proposal includes $3.8 million for infrastructure upgrades. Much of this will go toward replacing aged office automation equipment such as desktop computers, network file or messaging servers, and printers. Approximately $2.0 million of that amount is in support of the Office of Disaster Assistance. The agency expects to spend the majority of the $3.8 million to make equipment purchases through contracts with one or more 8(a) vendors.

Question 2: Is SBA considering the use of Seat Management acquisition, similar to the successful programs at NASA and Dept. of Navy, in order to improve the efficiency of its procurement of desktop computer services?

Answer: To date, SBA has not been able to reliably establish a measurable benefit that would accrue to it over a period of years by a multi-year commitment to seat management. SBA remains interested in this concept and has and will continue to examine the possibility of seat management or other forms of equipment leasing to meet its IT requirements. SBA's most recent experience suggests that sharp declines in the cost of basic IT hardware have offset some of the advantages initially expected from seat management.

Question 3: Does SBA currently procure higher end servers either through capital equipment purchase or through leasing? If SBA does not currently lease higher end servers, please provide its reasoning and copies of all cost analyses and cost comparisons supports it current acquisition strategy.

Answer: For over 12 years SBA has secured its most mission critical IT services, those related to its loan accounting and transactions data, through contracts to outsourced data center providers. As currently defined under a government-wide GSA contract, SBA requires the vendor to provide IT capacity, performance and availability to meet service level standards defined by the agency. Under that contract, SBA does not purchase equipment from the vendor but only services that meet specified standards. While SBA knows the equipment used to provide those services, the contract does not specify the use of particular equipment. Over time SBA has purchased some low to mid-range servers as needed to support the demand for information and services delivered via the Internet. SBA is initiating plans to migrate those services and equipment under an outsourced data center model similar to the one that currently serves the IT requirements for the Agency's loan programs.

Computer Security

Question 1: Why is the SBA request for Computer Security funding less than the current fiscal year? Is this amount a smaller percentage of the overall Information Technology budget?

Answer: The computer security funds for 2003 are less than the FY 2002 funds because SBA must perform catch up activities this year (FY 2002) to compensate for limited funding in prior years. The lower projected security funds for FY 2003 are what SBA currently considers to be yearly on-going baseline costs once all aspect of the IT Security Program have been implemented. Additionally, as part of its IT capital-planning process, SBA is requiring that security costs be included when plans and cost projections are developed for new initiatives.

Question 2: When will SBA complete the risk assessments of all its systems? If this work will not be completed in Fiscal Year 2003, please explain the reasons for this delay.

Answer: Based on current plans and schedules, SBA will complete the Certification and Accreditation (C&A) Program for all critical systems during 2003 and expect to complete the reviews of low and medium risk systems within the same timeframe if requested funding levels are maintained. SBA also plans to begin the re-certification of all critical and major support systems during the later part of 2003.

Question 3: How many successful hacking attempts has SBA detected in Fiscal Year 2000, 2001, and year to date 2002?

Answer: SBA recorded one successful hacking attempt in FY 2000 against a Microsoft NT server that was used to support training. Additionally, during FY 2000, SBA reported the Love Bug virus to FedCIRC as a virus/hacking incident. SBA monitors the network and its firewall for unusual activities. SBA also has periodic penetration tests conducted by outside contractors or in conjunction with audit activities being carried-out by the Office of the Inspector General.

Question 3A: How many unsuccessful hacking attempts has SBA detected in Fiscal Year 2000, 2001, and year to date 2002?

Answer: IN FY 2000, SBA detected three attempts. SBA detected eight attempts in FY 2001 and none so far in FY 2002.

Question 4: Has SBA completed all required elements of PDD-63 and PDD-67?

Answer: To satisfy PDD-63 and 67, SBA has developed draft Business Resumption Plans (BPR) for all critical program areas and a draft COOP Plan for SBA headquarters office. All of the plans are currently going through the final review and approval process by SBA management. Once the critical plans are completed, SBA will develop BPRs for non-critical program offices.

GENERAL ISSUES

Question 1: Does SBA propose to charge each line item a 10% administrative fee as has been done in the past?

Answer: Under Section 605 of SBA's annual appropriation act, Congress provides SBA the authority to reprogram the lower of 10% or $500,000 of its program appropriations made within the same account. In order for SBA to support all the programs that it administers, it must have sufficient operating funds to cover obligations for items such as staff, rents, travel, etc. At the beginning of each fiscal year, SBA assesses its needs for operational funds and may use this

congressional reprogramming authority to ensure SBA fully supports all program areas sufficiently during the year.

For example, during FY 2001, SBA obligated about $1.4 million in operational funds to support its SBIR programs. The reprogramming from this direct program appropriation in FY 2002 was only $350,000. This reprogramming amount is reasonable in light of the costs associated with administering these programs.

Question 2: The Budget submission lists Modernization of Financial management systems as a major priority for 2003. What specifically does this mean and what systems specifically is SBA proposing to modernize?

Answer: As part of SBA's earlier modernization planning, SBA identified several areas within the Agency where it plans to modernize the systems and processes over time. These areas included administrative operations, loan origination, servicing, liquidation, and accounting, subsidy rates, lender oversight, loan monitoring, Entrepreneurial Development, Government Contracting/Business Development, and Disaster Assistance.

Many of these efforts will have financial management implications, and therefore any efforts undertaken in these areas must ensure integration of data and information. Further progress in this area, beyond what SBA has accomplished through the installation of the core financial management system infrastructure, will require funding which has not been specifically requested in this budget.

As has been discussed, SBA will modernize its subsidy rate processes through the development of an econometric model with OFHEO for the 7(a) program for FY 2004 and then for the 504 program for FY 2005.

The Disaster Credit Management Modernization (DCMM) project is underway and SBA expects to begin seeing visible progress during FY 2003. Finally, SBA hopes to begin making progress in the other program areas as well, assuming there are funds available to support these efforts.

Question 3: How much funding is SBA proposing to spend in Fiscal Year 2003 on JAAMs and how is this money to be spent?

Answer: At the present time, the JA^{2}MS project has been limited to the installation of the core financial management system to replace the previous administrative system that was cross-serviced with Treasury. This system is operational for FY 2002 and is being refined to ensure it fully meets SBA's daily processing needs for administrative expenses. The annual maintenance and operation of this base system are included in SBA's request under the Salaries and Expenses account in the amount of $1.8 million. This does not include any additional systems development or expansion.

Using its Business Technology Investment Council (BTIC) – SBA's capital management planning group required under the Clinger-Cohen Act – SBA will be evaluating the initial

installation of JA^2MS phase 1.0 during the month of April. At that same time, the BTIC will determine if additional development and expansion of the JA^2MS project to include a software upgrade, automation of travel, procurement and human resources (phase 2.0-4.0) are feasible, desirable, and affordable. Depending on the outcome of that decision, a detailed project planwould be developed outlining the costs and benefits of further development and proposed timelines.

SBA did not specifically request any funds in the FY 2003 budget for additional work on the JA^2MS project. Therefore, any decision to move forward with additional phases would require SBA to absorb the cost from within its annual appropriation to Salaries and Expenses.

Question 4: The budget request proposes to eliminate funding for the Survey of Women-Owned businesses. The reason cited for this budget change is that the Administration will completely fund the Survey through the Census Bureau appropriations. Does the Census Bureau's budget as proposed by the Administration contain the full funding request necessary for continuation of the Survey?

Answer: SBA is working with the Census Bureau to ensure that the necessary information from the Survey of Women-Owned Businesses will continue to be gathered.

Question 5: Recently, the Chief Counsel of Advocacy was sworn into office. In the past year, the Committee was told by SBA officials that many full-time employee positions were left vacate so that the new Chief Counsel may fill them. Does the Small Business Administration intend to retain these positions for the new Chief Counsel?

Answer: Yes, within the constraints of FY 2002 funding.

Question 6: What were the staffing levels/ceilings of the Office of Advocacy for each Fiscal Year since 1990? What are the anticipated staffing levels/ceilings for Fiscal Year 2003?

Answer: The staffing level at the end of each year and the associated ceilings are shown below. SBA stopped using ceilings for all of its organizational components several years ago due to the decline in its operating budget and the loss of staff that has occurred. SBA wants to use its limited hiring authority strategically, and as a result ceilings have become less important. However, due to the independent nature of the Office of Advocacy, there has been an annual agreement between the Chief Counsel and the Administrator on the staffing level for that office. In the budget request on page 64, the staffing level for FY 2001 shows the loss of staff due to the transition. For FY 2002 and FY 2003 presentation purposes, SBA increased this on-board level by 10 positions to indicate the minimal expected hiring of the Regional advocates that would not occur until the Chief Counsel (Tom Sullivan) was on-board. Advocacy's approved staffing level is 47. However, SBA is working with Mr. Sullivan to review his critical hiring needs and will adjust that level as necessary.

Fiscal Year	Approved Staffing Level	On-Board at 9/30
1990	76	64
1991	68	69
1992	68	69
1993	63	48
1994	54	56
1995	57	46
1996	53	46
1997	49	46
1998	49	46
1999	49	46
2000	49	43
2001	49	35
2002	47	N/A
2003	47	N/A

Question 7: The Administration is currently undertaking a pilot program testing various alternative District Office operating models and organizational schemes. The Committee has been informed that the SBA intends to expand the pilot program to 20 additional District Offices in fiscal year 2003. Please give a detailed description of the various operating models and organizational schemes currently being used by the pilot District Offices (including information on the roles of the pilot District Office in the processing, servicing, and liquidation of loans and on the various staff positions assigned to those duties). Please indicate staffing levels at the pilot District Office for Fiscal Years 2001 and 2002. Please identify those models and schemes that the SBA intends to use in the proposed 20 additional pilot District Office in Fiscal Year 2003.

Answer: Starting this year and beginning in earnest in FY 2003, SBA will be implementing a strategic approach to its workforce structure and human capital planning efforts. SBA will focus its efforts on improving its delivery of services to the public, with particular attention on increasing SBA's reliance on technology and on improving SBA's oversight functions. SBA knows from experience that any workforce restructuring effort will require significant funding. For instance, SBA is considering centralizing a number of remaining "back room" operations such as the loan processing, serving and liquidation functions currently carried out by the Districts. SBA estimates that such centralization would cost about $540,000 per District Office. Over the next several weeks, SBA will be finalizing its Five-Year Restructuring Plan. The plan will provide a specific action plan for phasing in our restructuring approach. Once the Plan is finalized, a copy will be provided to the Committee.

Attachment A for Question 11
on Pages 6–7 of SBA's Responses
(* Retained in Committee Files)

Attachment B
for Question 1 on Page 13
of SBA's Responses

Portfolio Performance: Purchase and Recovery Rates:

Transactional data is available since Activity Year 1989. Activity in 1990 for all cohorts has been adjusted upward by 1/4 due to the unavailability of data for April, May and June of that year. Outyear projections following "peak" years are made based on a dy/dx factor (relative slope of a line). It has been found that the general shape of the purchase and recovery curves is similar across cohorts (see charts). Outyear projections, unless otherwise specified, are made based on the average relationships between activity years (see dy/dx factor).

Unweighted Purchase Rates

	Total To date	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Cohort 1986	**20.29%**	20.29%	0.02%	2.24%	5.88%	4.63%	2.41%	2.02%	1.25%	0.90%	0.33%	0.25%	0.10%	0.08%	0.07%	0.03%	0.04%	0.01%
Cohort 1987	**19.99%**	19.99%	0.02%	1.70%	4.94%	4.03%	3.48%	2.32%	1.56%	0.63%	0.50%	0.35%	0.18%	0.09%	0.09%	0.09%	0.00%	0.00%
Cohort 1988	**22.08%**	22.13%	0.05%	2.56%	5.42%	5.35%	3.73%	2.14%	1.06%	0.68%	0.43%	0.23%	0.16%	0.14%	0.09%	0.04%	0.03%	0.02%
Cohort 1989	**19.99%**	20.04%	0.15%	2.33%	5.55%	4.64%	2.90%	1.65%	1.10%	0.80%	0.33%	0.27%	0.14%	0.07%	0.05%	0.02%	0.01%	0.01%
Cohort 1990	**20.95%**	21.09%	0.08%	3.13%	6.16%	4.27%	2.95%	1.61%	1.26%	0.50%	0.36%	0.20%	0.15%	0.09%	0.08%	0.03%	0.02%	0.02%
Cohort 1991	**15.61%**	15.79%	0.13%	2.42%	3.68%	3.29%	2.17%	1.90%	0.86%	0.49%	0.39%	0.18%	0.10%	0.07%	0.06%	0.02%	0.02%	0.01%
Cohort 1992	**10.24%**	10.44%	0.06%	1.35%	2.65%	2.24%	1.89%	0.95%	0.52%	0.34%	0.11%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1993	**7.92%**	8.25%	0.03%	0.94%	2.12%	2.03%	1.17%	0.69%	0.47%	0.27%	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1994	**7.51%**	7.94%	0.06%	1.00%	2.20%	1.74%	1.09%	0.72%	0.41%	0.29%	0.16%	0.10%	0.06%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 1995	**8.28%**	9.10%	0.05%	1.20%	2.28%	1.92%	1.41%	0.83%	0.58%	0.33%	0.19%	0.12%	0.07%	0.04%	0.04%	0.01%	0.01%	0.01%
Cohort 1996	**8.27%**	9.97%	0.03%	0.94%	2.33%	2.21%	1.58%	1.18%	0.70%	0.40%	0.23%	0.14%	0.08%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1997	**6.49%**	9.13%	0.02%	0.77%	1.94%	2.10%	1.67%	1.08%	0.65%	0.37%	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1998	**5.59%**	9.83%	0.05%	0.87%	2.26%	2.41%	1.64%	1.07%	0.64%	0.36%	0.21%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Cohort 1999	**3.36%**	9.24%	0.03%	0.83%	2.50%	2.13%	1.45%	0.94%	0.56%	0.32%	0.18%	0.11%	0.06%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 2000	**0.98%**	8.10%	0.02%	0.96%	2.12%	1.81%	1.23%	0.80%	0.48%	0.27%	0.15%	0.10%	0.05%	0.04%	0.03%	0.01%	0.01%	0.01%
Cohort 2001	**0.04%**	10.57%	0.04%	1.25%	2.77%	2.36%	1.61%	1.04%	0.62%	0.35%	0.20%	0.13%	0.07%	0.05%	0.04%	0.02%	0.01%	0.01%
Average of Historical Transactional Da		14.39%	0.0534%	1.5492%	3.5645%	3.1422%	2.2047%	1.4749%	[illegible]	0.5439%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.0107%

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Unweighted Purchase Rates 7(a)

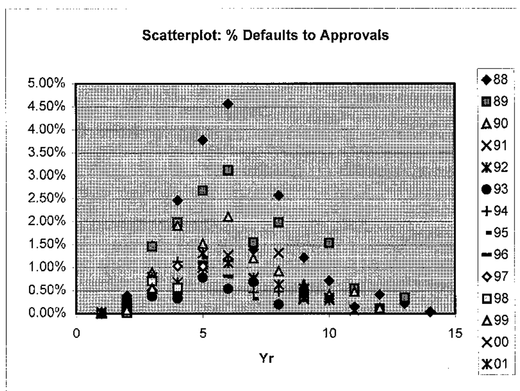
(as percent of SBA-share disbursed)	(1) Total To Date	(2) Rate in Re-estimate	(3) Expected Total
Cohort 1986 (4)	20.29%	20.29%	20.29%
Cohort 1987	19.99%	20.01%	19.99%
Cohort 1988	22.08%	35.78%	22.13%
Cohort 1989	19.99%	20.04%	20.04%
Cohort 1990	20.95%	21.05%	21.09%
Cohort 1991	15.61%	15.78%	15.79%
Cohort 1992	10.24%	10.51%	10.44%
Cohort 1993	7.92%	8.37%	8.25%
Cohort 1994	7.51%	8.24%	7.94%
Cohort 1995	8.28%	9.48%	9.10%
Cohort 1996	8.27%	10.30%	9.97%
Cohort 1997	6.49%	9.90%	9.13%
Cohort 1998	5.59%	11.11%	9.83%
Cohort 1999	3.36%	11.95%	9.24%
Cohort 2000	0.98%	13.14%	8.10%
Cohort 2001	0.04%	13.75%	10.57%

1) Actual Purchase rate to June 2001 (Annualized).
2) The Re-estimate uses the actual results to date plus the average purchase curve for all cohorts for the cohort's remaining life.
3) The Expected Total is the results to date extended for the cohorts' life by using the slope of the average for all cohorts. Essentially, it is a customized mathematical extension.
4) The 1986 cohort has reached the average maturity of the program; however, minimal amounts of new defaults should be expected.

Attachment C
for Question 1 on Pages 15
of SBA's Responses

% Defaults to Approvals

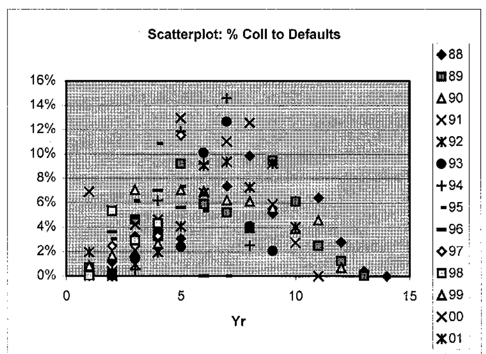
Loan Approval	Yr_1	Yr_2	Yr_3	Yr_4	Yr_5	Yr_6	Yr_7	Yr_8	Yr_9	Yr_{10}	Yr_{11}	Yr_{12}	Yr_{13}	Yr_{14}	Total
1988	0.00%	0.39%	1.47%	2.46%	3.77%	4.56%	1.39%	2.57%	1.21%	0.72%	0.14%	0.41%	0.22%	0.04%	19.35%
1989	0.00%	0.22%	1.46%	1.98%	2.67%	3.12%	1.54%	1.98%	0.35%	1.54%	0.54%	0.11%	0.35%		15.87%
1990	0.00%	0.18%	0.89%	1.91%	1.52%	2.10%	1.20%	0.92%	0.63%	0.41%	0.48%	0.12%			10.36%
1991	0.00%	0.23%	0.60%	0.51%	1.00%	1.27%	0.75%	1.31%	0.31%	0.34%	0.07%				6.39%
1992	0.00%	0.11%	0.79%	0.67%	1.30%	1.10%	0.77%	0.62%	0.54%	0.29%					6.20%
1993	0.00%	0.18%	0.38%	0.34%	0.78%	0.54%	0.69%	0.20%	0.48%						3.58%
1994	0.00%	0.02%	0.49%	1.13%	0.98%	1.14%	0.46%	0.48%							4.68%
1995	0.00%	0.01%	0.46%	1.02%	1.21%	0.79%	0.31%								3.81%
1996	0.00%	0.07%	0.49%	0.64%	1.12%	0.81%									3.12%
1997	0.00%	0.08%	0.49%	1.03%	1.02%										2.62%
1998	0.00%	0.01%	0.70%	0.56%											1.27%
1999	0.00%	0.07%	0.55%												0.62%
2000	0.00%	0.24%													0.24%
2001	0.02%														0.02%



504 2003 Cohort Estimate

% Collections to Defaults

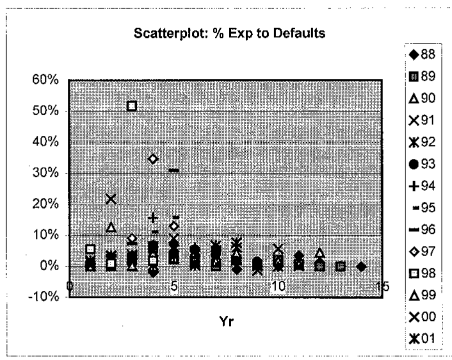
LoanApprovalFy	Yr_1	Yr_2	Yr_3	Yr_4	Yr_5	Yr_6	Yr_7	Yr_8	Yr_9	Yr_{10}	Yr_{11}	Yr_{12}	Yr_{13}	Yr_{14}	Total
1988	0.203%	1.123%	3.261%	3.756%	3.050%	5.855%	7.358%	9.848%	5.124%	6.132%	6.403%	2.765%	0.393%	0.000%	55.272%
1989	0.698%	0.176%	4.616%	3.291%	9.213%	5.895%	5.209%	3.911%	9.479%	6.099%	2.483%	1.230%	0.000%		52.300%
1990	0.165%	0.282%	1.871%	2.641%	7.041%	6.936%	6.200%	6.109%	5.542%	3.891%	4.581%	0.697%			45.956%
1991	0.042%	5.397%	4.207%	4.630%	12.953%	6.811%	11.016%	12.573%	5.865%	2.734%	0.000%				66.228%
1992	0.030%	0.373%	0.928%	1.931%	4.057%	9.055%	9.357%	7.257%	9.206%	4.000%					46.195%
1993	0.080%	0.017%	1.548%	3.203%	2.405%	10.110%	12.668%	4.082%	2.072%						36.184%
1994	0.011%	0.000%	0.526%	6.185%	11.863%	9.206%	14.613%	2.502%							44.905%
1995	0.577%	3.031%	6.142%	10.847%	7.328%	5.331%	0.000%								33.257%
1996	0.145%	3.613%	4.802%	7.012%	5.610%	0.000%									21.180%
1997	0.010%	2.441%	2.471%	3.251%	11.535%										19.707%
1998	0.009%	5.332%	2.925%	4.295%											12.560%
1999	0.810%	1.673%	7.047%												9.530%
2000	6.891%	0.000%													6.891%
2001	1.939%														1.939%



504 2003 Cohort Estimate

% Exp to Defaults

LoanApprovalFy	Yr_1	Yr_2	Yr_3	Yr_4	Yr_5	Yr_6	Yr_7	Yr_8	Yr_9	Yr_{10}	Yr_{11}	Yr_{12}	Yr_{13}	Yr_{14}	Total
1988	0.786%	0.774%	3.534%	-2.114%	6.921%	5.154%	5.904%	-1.075%	0.082%	0.050%	3.435%	1.251%	0.000%	0.000%	24.703%
1989	0.006%	0.134%	2.698%	5.755%	2.239%	1.266%	0.035%	1.891%	0.578%	2.023%	0.726%	0.018%	0.000%		17.369%
1990	0.000%	0.014%	0.019%	0.021%	2.661%	4.537%	1.568%	4.293%	0.446%	1.743%	0.616%	4.465%			20.383%
1991	0.000%	3.125%	3.615%	4.757%	8.931%	1.050%	3.451%	6.076%	-1.305%	5.576%	0.029%				35.307%
1992	1.030%	3.401%	2.297%	0.348%	6.201%	0.346%	6.595%	7.567%	0.042%	0.007%					27.834%
1993	0.000%	0.014%	1.128%	6.686%	4.187%	5.365%	3.776%	1.675%	1.413%						24.245%
1994	0.000%	0.000%	2.766%	15.619%	2.970%	6.008%	6.310%	0.682%							34.355%
1995	0.008%	3.169%	4.242%	11.049%	15.703%	3.539%	0.819%								38.527%
1996	0.003%	3.275%	7.231%	7.449%	30.887%	4.991%									53.835%
1997	0.011%	0.147%	9.055%	34.733%	12.921%										56.865%
1998	5.475%	0.745%	51.764%	1.780%											59.764%
1999	0.104%	12.633%	0.199%												12.936%
2000	0.054%	21.742%													21.796%
2001	1.742%														1.742%

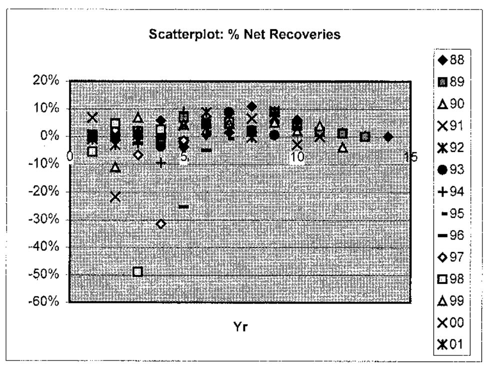


504 2003 Cohort Estimate

% Net Recovery to Defaults

% Net Recoveries to Defaults

LoanApprovalFy	Yr_1	Yr_2	Yr_3	Yr_4	Yr_5	Yr_6	Yr_7	Yr_8	Yr_9	Yr_{10}	Yr_{11}	Yr_{12}	Yr_{13}	Yr_{14}	Total
1988	-0.583%	0.349%	-0.274%	5.870%	-3.871%	0.701%	1.454%	10.923%	5.043%	6.082%	2.968%	1.514%	0.393%	0.000%	30.569%
1989	0.692%	0.042%	1.918%	-2.464%	6.974%	4.629%	5.174%	2.020%	8.901%	4.077%	1.757%	1.212%	0.000%		34.931%
1990	0.165%	0.268%	1.852%	2.620%	4.380%	2.399%	4.632%	1.816%	5.097%	2.147%	3.966%	-3.768%			25.573%
1991	0.042%	2.271%	0.592%	-0.127%	4.022%	5.761%	7.565%	6.496%	7.170%	-2.842%	-0.029%				30.922%
1992	-0.999%	-3.029%	-1.369%	1.583%	-2.144%	8.709%	2.762%	-0.310%	9.164%	3.993%					18.361%
1993	0.079%	0.003%	0.420%	-3.483%	-1.783%	4.745%	8.892%	2.407%	0.659%						11.939%
1994	0.011%	0.000%	-2.240%	-9.434%	8.893%	3.198%	8.303%	1.820%							10.550%
1995	0.569%	-0.138%	1.901%	-0.202%	-8.374%	1.792%	-0.819%								-5.271%
1996	0.142%	0.337%	-2.429%	-0.437%	-25.277%	-4.991%									-32.655%
1997	0.000%	2.294%	-6.584%	-31.482%	-1.386%										-37.158%
1998	-5.466%	4.587%	-48.839%	2.514%											-47.204%
1999	0.706%	-10.961%	6.849%												-3.406%
2000	6.838%	-21.742%													-14.904%
2001	0.197%														0.197%



Attachment D
for Question 2 on Page 21
of SBA's Responses

OFFICE OF THE NATIONAL OMBUDSMAN

Regulatory Fairness Hearing and Roundtable Schedule for FY 2002

DRAFT

Rev. 03/05/02

REGION	LOCATION	DATE	FUNCTION
8	Evanston, Wyoming	October 29, 2001	RegFair Hearing
7	Overland Park, Kansas	November 1, 2001	Roundtable
3	Harrisburg, Pennsylvania	November 13, 2001	Roundtable
5	Indianapolis, Indiana	December 4, 2001	RegFair Hearing
4	Frankfort, Kentucky	January 17, 2002	Roundtable
4	Orlando, Florida	January 28, 2002	RegFair Hearing
3	**Washington, DC**	**February 6, 2002**	**Inter-agency National Meeting**
6	Little Rock, Arkansas	February 20, 2002	Roundtable
6	Albuquerque, New Mexico	February 25, 2002	RegFair Hearing
9	San Diego, California	March 11, 2002	RegFair Hearing & Roundtable
9	Los Angeles, California	March 13, 2002	Roundtable
9	Las Vegas, Nevada	March 15, 2002	Roundtable
10	Seattle, Washington	April 2, 2002	RegFair Hearing
10	Portland, Oregon	April 4, 2002	Roundtable
3	Charleston, W. Virginia	April 17, 2002	Roundtable
7	Wichita, Kansas	April 29, 2002	RegFair Hearing
2	New York, New York	May 20, 2002	RegFair Hearing
3	Richmond, Virginia	June 10, 2002	RegFair
8	Sioux Falls, South Dakota	June 24, 2002	RegFair
1	Hartford, Connecticut	July 10, 2002	Roundtable
5	Milwaukee, Wisconsin	July 15, 2002	RegFair
3	**Washington, D.C.**	**July 24-25, 2002**	**Annual Meeting of RegFair Board**
1	Boston, Massachusetts	September 9, 2002	RegFair Hearing

COMMENTS FOR THE RECORD

Opening Statement of Senator Jean Carnahan

Committee on Small Business and Entrepreneurship

Hearing on the President's FY2003 Budget Request for the Small Business Administration

February 27, 2002

Mr. Chairman, thank you very much for holding this hearing today. I am encouraged by President Bush's decision to propose increased funding for the Small Business Administration this year. Yet, I believe that we need a vigorous debate and discussion about many of the details of the President's proposal. This hearing is an important first step in that process.

In recent weeks, we have seen several positive signs that the American economy has started to pull out of the slump it entered last year. But still, no economists are predicting a robust recovery. This recession has been characterized by sluggish business investment. And any sustained recovery will require reinvigorated investment by businesses of all sizes.

History suggests that America's 25 million small businesses will be essential to getting our economy growing again. Small businesses provide seventy-five percent of net new jobs added to the economy. They account for more than half of the jobs and output of the private sector. Small businesses are also more likely to hire older workers, younger workers, women, or people seeking part-time employment. I would suggest that as Congress looks for ways to reinvigorate our economy, we ought to concentrate specifically on how we can assist small businesses.

There are many important initiatives funded through the Small Business Administration (SBA). I will not try to touch on every one of them here. But let me focus on the SBA's primary loan program, the 7(a) Loan Guarantee Program. Every year, small businesses across the country turn to the 7(a) program for loans that are too small or too risky to interest the commercial capital markets.

Through the 7(a) program, the Small Business Administration is the largest single provider of long-term loans to businesses. These loans enable businesses to expand their factories, purchase new computers, or augment their working capital. By helping businesses get off the ground, or even expand, these loans create jobs and generate tax revenue. The minimal investment that the government makes in each of these loans generates a substantial return to our economy and to federal revenues.

Given the precarious state of our economy and the potential of 7(a) loans, it is extremely disheartening to see that the budget contains such a steep cut in funding for this program. To get our economy moving again, we need to make more capital available to businesses, not less. I look forward to working with my colleagues in the Senate to pass an appropriation for the Small Business Administration that recognizes the importance of the 7(a) program.

I would also like to take a moment to thank my fellow Missourian, Alan Corbet for agreeing to testify before the Committee today. I strongly support the important work he has done as a microloan intermediary lender in Missouri. His organization, the Growth Opportunity Network, provides loans and technical assistance to the smallest of businesses. And often that little infusion of capital, and the business expertise that comes with it, makes all the difference as a new entrepreneur is just getting started. I share his concern that the technical assistance for microlending has been shortchanged by the President's budget. This approach jeopardizes the entire program, putting the loans at risk for default and depriving businesses of the assistance they need to succeed. I will fight for the technical assistance funding necessary to service these critical loans.

Mr. Chairman, there are many other issues to be addressed in the President's proposed budget. I look forward to working with you to ensure that the SBA has the resources it needs to help small businesses be the engine of growth for our economy.

Thank you.

STATEMENT OF SENATOR MICHAEL B. ENZI
SMALL BUSINESS COMMITTEE HEARING
SBA's FUNDING PRIORITIES FOR FY 2003
FEBRUARY 27, 2002

Thank you, Mr. Chairman, for holding this hearing this morning. I am very pleased to have an opportunity to hear from SBA Administrator Hector Barreto and the other witnesses regarding the Small Business Administration's Funding Priorities for Fiscal Year 2003.

While some changes are needed, I believe the SBA Fiscal Year 2003 budget is an example of President Bush's goals in proposing a responsible budget for the U.S. Small Business Administration. The budget does emphasize fiscal responsibility by slowing the overall growth in SBA's spending, minimizing the number of new initiatives that undermine SBA's capacity to administer its core programs and taking steps to improve the efficiency of SBA's existing programs. However, I believe the President's small business public policy goals in the FY 2003

budget need to be more carefully reviewed prior to the Congress funding the Administration's small business priorities at these current funding levels.

Small business development has created a network of people in Wyoming that are excited and knowledgeable about entrepreneurship. Small business entrepreneurs have planted the seeds of economic diversity in communities that really need it. I am concerned that the SBA's FY 2003 budget may hinder this economic growth to thrive in rural states like Wyoming. For example, the FY 2003 budget request for 7(a) Guaranteed Loan Program is $4.85 billion, down from an appropriated level of more than $13 billion for FY 2002. This major change in the 7(a) loan program will hinder small business growth in Wyoming. I will submit more detailed questions for you to respond to in the next week about this concern.

I strongly support the President's initiatives to promote the Drug-Free Workplace Program, SCORE, Veterans' Business

Development Assistance, and Women's Procurement Assistance. I was especially pleased to see the creation of Native American small business outreach at $1 million in FY 2003. This outreach will greatly assist the new small businesses being created by the Northern Arapaho and Eastern Shoshone on the Wind River Indian Reservation in Wyoming. I know these programs will assist Wyomingites in creating strong communities via small business and sustaining economic growth in my home State.

As many of you know, Senator Burns and I created the SBIR Rural Outreach Program several years ago to provide technical assistance grants to states where the level of small business participation in the SBIR Program was underdeveloped. The Small Business Reauthorization Act of 1997 authorized the funding level of this program at $2 million. For FY 2003, the Administration proposes to fund the Rural Outreach Program at $500,000. At this level, participating states will receive less than $20,000 each in grants to implement the states' technical

assistance programs to promote small business innovative research in rural states. I know this was not our intent when we created the SBIR Rural Outreach Program.

I am very discouraged that the Administration included only $500,000 for the SBIR Rural Outreach Program as well as $3 million for the Federal and State Technology (FAST) Program. Western small businesses have some special impediments to overcome. In recent years, the SBIR and FAST programs have provided excellent funding opportunities for individuals and small businesses that have a passion to explore, develop, and commercialize their innovative ideas. This is especially true in rural states like Wyoming. Rural states need technology-based businesses that the SBIR and FAST programs nurture. The SBIR and FAST programs are two of the few opportunities for Wyoming's small businesses to access federal R&D funding. I strongly believe the Administration should work with the Congress to fully fund these programs at their authorized levels.

In closing, the Senate Small Business Committee is committed to ensuring that the Small Business Administration stays on task in an efficient and effective manner when assisting small businesses nationwide. Again, I want to Administrator Barreto and the other witnesses for being here today. I look forward to hearing from you today and look forward to further discussing small business with each of you and your staff in the months to come.

STATEMENT OF SENATOR GEORGE V. VOINOVICH
NOMINATION OF MELANIE R. SABELHAUS
DEPUTY ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION
COMMITTEE ON SMALL BUSINESS
FEBRUARY 26, 2002

Mr. Chairman, I would like to thank you and Senator Bond for giving me this opportunity to speak on behalf of Melanie Sabelhaus, who has been nominated to be Deputy Administrator of the Small Business Administration.

Mr. Chairman, we need individuals within the Small Business Administration who understand the nuances of how small businesses are run, and more importantly understand the needs of small business owners. Melanie Sabelhaus's extensive business acumen makes her tremendously qualified to handle this job.

I would like to touch on that business experience, particularly with respect to her company Exclusive Interim Properties, LTD (EIP). In 1986, Melanie founded EIP, a company to provide high quality, totally furnished and accessorized corporate accommodations for relocated executives, temporary assignment employees, professional sports teams, and the like. She watched her company grow for eleven years, and in 1997, EIP consolidated with four other interim housing providers to form Bridgestreet Accommodations. Bridgestreet went public on the NASDAQ that year, and Melanie stayed on as Vice President of Global Sales until her retirement in 1998.

Melanie's commitment to business is exemplified not only through her work experience, but also through her service to her community, as evidenced by the myriad of boards and organizations on which she has served and continues to serve, including, but certainly not limited to, the Ohio University Advisory Board, the Alzheimer's Association of Central Maryland Board of Directors, the World Trade Association Board, and the United Way of Central Maryland Board of Directors.

I am comforted in the knowledge that someone like Melanie is willing to put her business career on hold in order to serve in this position. It is a true testament to her sense of duty and service to our country, and we should be thankful that she has answered the call to serve.

Mr. Chairman, I believe that Melanie Sabelhaus is a great candidate for this position, and I urge the Committee to report her nomination as quickly as possible so that the full Senate will be able to vote on her confirmation.

Thank you, Mr. Chairman.

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

OFFICE OF THE ADMINISTRATOR MAR - 6 2002

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

Dear Mr. Chairman:

I wish to clarify, for the record, the current Administrator's line of succession. Currently, based on a notice published in the *Federal Register* (Volume 66, Number 153, p. 41647) the line of succession is the Chief of Staff and the Counselor to the Administrator. Upon confirmation of the Deputy Administrator, a new notice will be issued.

As I stated in my letter of February 26, I expect the Deputy Administrator to fully share in the day-to-day operations of the Agency and the formulation of its policies. Mrs. Sabelhaus is going to be a valuable asset to the U.S. Small Business Administration and I look forward to her confirmation in the near future to assist me in fulfilling the Agency's mission to America's small businesses.

Sincerely,

Hector V. Barreto

Hector V. Barreto
Administrator

Enclosure

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44640; File No. SR-SCCP-2001-02]

Self-Regulatory Organizations; the Stock Clearing Corporation of Philadelphia; Order Granting Approval of a Proposed Rule Change Relating to the Deletion of Rule 20

August 1, 2001.

On February 5, 2001, the Stock Clearing Corporation of Philadelphia ("SCCP") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-SCCP-2001-02) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] Notice of the proposal was published in the **Federal Register** on April 4, 2001.[2] No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description

The purpose of the filing is to delete SCCP Rule 20. Rule 20 requires SCCP to provide a daily bookkeeping form to margin members that utilize SCCP's omnibus account. SCCP participants must verify the statement upon receipt and promptly report any exceptions or corrections. Additionally, Rule 20 provides that as of the last Friday of each month SCCP requests each participant to respond in writing as to whether their monthly account statement issued by SCCP is accurate for each type of account. If a statement is incorrect, any differences should be reported on research requests and enclosed with the written reply. The reply must be signed by the participant and returned to SCCP by the twentieth day of the month following the date of the statement. Pursuant to the rule, penalties may be imposed on a participant who fails to respond to confirmation requests in a timely manner. The rule provides for a hearing process for such participants.

SCCP believes that Rule 20 is unnecessary because the information provided to participants on a monthly basis is essentially duplicative of information provided daily pursuant to SCCP Rule 6. Moreover, SCCP believes that the participant certification requirement in Rule 20 is unnecessary, burdensome, and inconsistent with general practices in the financial services industry. SCCP Rule 6 provides that all transactions executed on the Philadelphia Stock Exchange, Inc., and all other transactions submitted by a participant to SCCP are subject to SCCP trade recording and confirmation. All transactions are recorded and confirmed to SCCP participants daily. SCCP considers each transaction complete and accurate unless notified by the participant of any inaccuracy prior to settlement date. Participants are liable for any loss resulting from their failure to notify SCCP of any discrepancies. Accordingly, the requirements of SCCP Rule 20 are unnecessary in light of the requirements of SCCP Rule 6.

II. Discussion

Section 17A(b)(3)(F)[3] of the Act requires that the rule of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The rule change relives SCCP and its participants from providing and reviewing duplicative reports that are unnecessary due to compliance with other SCCP rules. By eliminating the report requirements of SCCP Rule 20, SCCP's rule change fosters more efficient procedures and thereby facilitates a more prompt and accurate clearance and settlement system at SCCP. Therefore, the Commission finds that the rule change is consistent with SCCP's obligation under Section 17A to have rules that are designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for clearance and settlement.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-SCCP-2001-02) be and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[4]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 01-19860 Filed 8-7-01; 8:45 am]

BILLING CODE 8010-01-M

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 44129, (March 28, 2001), 66 FR 17983.

[3] 15 U.S.C. 78q-1(b)(3)(F).

[4] 17 CFR 200.30-3(a)(12).

SMALL BUSINESS ADMINISTRATION

Administrator's Line of Succession Designation, No. 1-A, Revision 25

This document replaces and supercedes "Line of Succession Designation No. 1-A, Revision 24.".

Line of Succession Designation No. 1-A, Revision 25

Effective immediately, the Administrator's Line of Succession Designation is as follows:

(a) If I am absent from the office, I hereby designate the officials in listed order below to serve as Acting Administrator with full authority to perform all acts and functions which the Administrator is authorized to perform:

(1) Chief of Staff

(2) Counselor to the Administrator

(b) An individual serving in acting capacity in any of the positions listed in paragraph (a) but not acting by designation of the Administrator is not also included in this Line of Succession. Instead, the next official on the list shall serve as Acting Administrator.

(c) This designation shall remain in full force and effect until revoked or superceded in writing by the Administrator.

(d) Serving as Acting Administrator has no effect on the officials listed in paragraph (a), above, with respect to their current authorities, duties and responsibilities (except that such official cannot both recommend and approve an action).

Dated: August 3, 2001.

Hector V. Barreto,

Administrator.

[FR Doc. 01-19899 Filed 8-7-01; 8:45 am]

BILLING CODE 8025-01-P

SOCIAL SECURITY ADMINISTRATION

President's Commission To Strengthen Social Security

AGENCY: Social Security Administration (SSA).

ACTION: Announcement of meeting.

DATES: August 22, 2001 1 p.m.—4 p.m.

ADDRESSES: The Grand Ballroom, Loews L'Enfant Plaza Hotel, 480 L'Enfant Plaza, SW, Washington, DC 20024, (202)484-1000

SUPPLEMENTARY INFORMATION:

Type of meeting: The meeting will be open to the public between 1 p.m. and 4 p.m.

Purpose: This is the third deliberative meeting of the Commission. No public testimony will be heard at this meeting.

FEB. 26. 2002 5:28PM NO. 6300 P. 2

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

OFFICE OF THE ADMINISTRATOR

FEB 2 6 2002

The Honorable John F. Kerry
Chairman
Committee on Small Business & Entrepreneurship
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter of February 25, 2002. I reiterate my pledge made to you during my confirmation hearing that I take my responsibilities and duties as Administrator of the U.S. Small Business Administration (SBA) very seriously.

I am looking forward to the confirmation of Mrs. Sabelhaus so that she can assist in these duties and in the overall development of a management team that fosters an environment where small businesses can continue to succeed. I expect the Deputy Administrator to fully share in the day-to-day operation of the Agency and the formulation of its policies. Her travel will, like mine, be limited in scope and commensurate with the historical scheduling expectations of the Deputy Administrator of a Federal agency. If, on the rare occasion, both she and I are simultaneously participating in small business field events, we will be in direct communication with headquarters throughout our absence.

Both Mrs. Sabelhaus and I hold our responsibility to the small business community in the highest regard. I look forward to appearing before your Committee on Wednesday and I am hopeful that Mrs. Sabelhaus will be part of our SBA team as soon as possible.

Sincerely,

Hector V. Barreto
Administrator

Chris W. Busch, Ph.D.
Consultant
3100 Lost Creek Lane
Ronan, MT 59864

Testimony on:
Fiscal Year 2003 Budget Proposal for
U.S. Small Business Administration

Presented to:
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
UNITED STATES SENATE

27 February 2002

1. Introduction

Mr. Chairman and members of the U.S. Senate Committee on Small Business and Entrepreneurship: Thank you very much for this opportunity to testify about the FY 2003 SBA budget proposal. My comments will focus on:

a. The SBIR and STTR Programs;
b. The Rural Outreach and FAST Programs; and
c. The SBA Office of Technology

But first, I convey my deep appreciation to your committee and its members for the support delivered to our nation's small businesses. Your diligent work building and safeguarding the SBIR and STTR Programs is vital to small businesses throughout the country. The recent reauthorization of these two Programs is testimony to this.

The SBIR Program was critical to the success of my small business in the early days of the Program (1983-1986). After leaving the business in 1991, I have worked with many small businesses and organizations across the country providing SBIR competition assistance. My primary SBIR competition assistance work was delivered during my tenure with the Wyoming SBIR Initiative from mid-1996 to mid 2000. Based on the results achieved there, I have strong convictions that high quality assistance can dramatically improve SBIR competition results. I present some highlights from this experience later in my testimony.

2. Safeguarding the SBIR/STTR Programs

The recent rescission of roughly half of the DOD/BMDO FY 2003 SBIR funds (about $75 million) through the DOD appropriations bill underscores the need for continuing vigilance of the SBIR/STTR Programs. I salute Senators Kerry and Bond for their quick action in sending their 29 January 2002 letter to Secretary Rumsfeld seeking full restoration of the DOD/BMDO SBIR funds. SBA must be prepared to aggressively and effectively defend the SBIR and STTR Programs against these attacks.

SBA must insure that agencies abide by the SBIR/STTR statutes and Policy Directives. A present concern is that the statutory funding limits for SBIR/STTR Phase 1 and 2 ($100,000 and $750,000 respectively) are not being followed by all agencies. For example, my analysis of NIH FY 2001 awards data available on its website showed that about 47% of the Phase 1 awards exceeded the $100,000 ceiling. Similarly, DOD SBIR/STTR solicitations now describe standard Phase 2 procedures with award amounts greater than $750,000.

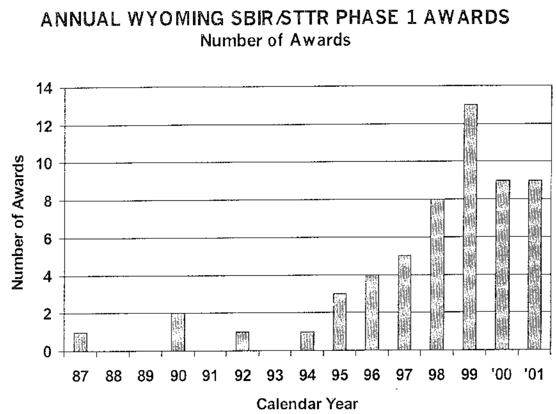
There are many other issues that SBA needs to safeguard. Some include: insuring agencies are determining properly their SBIR and STTR budgets (and not "under-calculating" them); defending small business data rights; insuring all SBIR/STTR Policy Directives are followed by all the agencies; achieving statutory requirements for SBIR/STTR award data bases; and more.

The breaches of SBIR/STTR statutory requirements and Policy Directives cited above appear to be growing in magnitude with time. Left unchecked, they are likely to continue growing in the future, and other agencies will be encouraged to follow. If the SBIR/STTR statutes and Policy Directives are appropriate, they should be followed. If they are outdated, they should be changed and then followed. I have strong convictions that the long-term integrity of any program mandates that proper rules be followed. We want the SBIR and STTR Programs to be around a long time.

Clearly, there is much work to be done to safeguard the SBIR and STTR Programs. Small businesses depend on the SBA to excel in performing this work, to be their advocate in the SBIR and STTR Programs and competitions.

The statutory requirements and Policy Directives for the SBIR and STTR Programs should be followed. Appropriate changes should be made to these requirements and directives if necessary.

SBA must insure that adequate resources in quantity and quality are deployed for it to properly safeguard the SBIR and STTR Programs. This does not appear to be the case now, as I will point out later in my testimony *(Part 6 below).*


ANNUAL WYOMING SBIR/STTR PHASE 1 AWARDS
Number of Awards
Number of Awards
14
12
10
8
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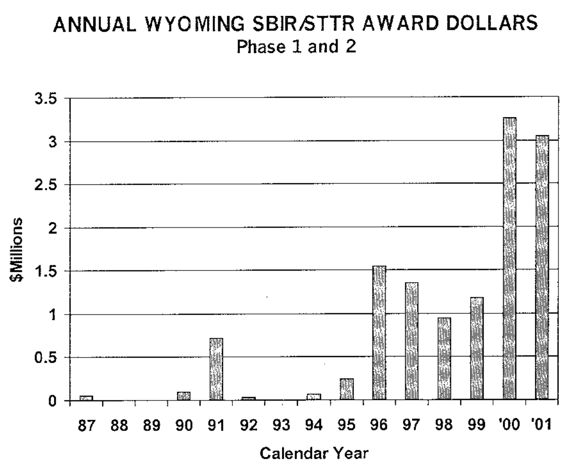
87 88 89 90 91 92 93 94 95 96 97 98 99 '00 '01
Calendar Year


ANNUAL WYOMING SBIR/STTR AWARD DOLLARS
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3. The Rural Outreach and FAST Programs

There is ample evidence that ***high quality*** outreach and competition assistance can have a significant positive impact on SBIR competition results, especially in under-performing states and regions. I had the privilege of being part of the pioneering Wyoming SBIR Initiative from mid-1996 to mid-2000. The payoff of this initiative are illustrated in the two charts on the following page. The first shows the growth in annual number of Phase 1 SBIR/STTR awards to Wyoming small businesses. The second chart shows the corresponding annual dollar value of Phase 1 and 2 awards to Wyoming small businesses. Clearly, SBIR competition results in Wyoming improved dramatically with the inception of the Wyoming SBIR Initiative.

High quality SBIR outreach and competition assistance works.

SBA now administers two SBIR outreach and competition assistance programs authorized by Congress through the leadership and action of your Committee. These are the Rural Outreach Program (ROP) and the Federal and State Technology (FAST) Partnership Program. ROP and FAST offer the potential to dramatically increase access to SBIR and STTR Program resources for all small businesses, but especially in under-performing regions of the country. Quality is the key.

P.L. 105-135 authorized the Rural Outreach Program (ROP) through FY 2001, and P.L. 106-554 extended the authorization period through FY 2005. The purpose of the program is to provide SBIR outreach assistance to small businesses in states that historically have under-performed in SBIR competition. About 25 states and territories are eligible for participation in the ROP. The program requires a 50% state match of federal ROP funds provided.

The Federal and State Technology (FAST) Partnership Program was created as part of the SBIR Program reauthorization in 2000 (P.L. 106-554). FAST is authorized through FY 2005, the same as the ROP. The purpose of the FAST Program is to provide SBIR and STTR competition assistance to small businesses. All 50 states and some territories are eligible to participate in FAST Program. There are three tiers of state match required (50, 75, and 100%) for federal FAST funds provided depending on the states SBIR competition success history.

Again, I emphasize that ***high quality*** outreach and competition assistance is critical to beneficial SBIR competition results. Conversely, there is abundant evidence that "low quality" outreach and competition assistance does not contribute to improved SBIR competition. For the ROP and FAST Program to be successful, it is imperative that ***high quality*** be emphasized in SBA's administration of them. SBA should not allow these two programs to become "entitlement" programs that will inevitably lead to low grade benefits. This requires that SBA make the ROP and FAST awards on a ***highly competitive*** basis.

Highly competitive selection of ROP and FAST award winners implies that some states will win and others will lose. This is the nature of competition - just like the SBIR and STTR Programs. However, SBA should make information available and provide assistance to states that want and need help to win in the ROP and FAST competitions. For example, "best practices" for conducting outreach and competition assistance programs can be compiled now based on experience gained over the past five or six years. Another example is a "training institute" for state organizations that could be outsourced to and administered by an organization like the State Science and Technology Institute (SSTI). Of course, this will take resources.

In the final analysis, it is up to the states and their small businesses to make the necessary commitment to capture ROP and FAST awards, and to take advantage of available resources to do so.

SBA should give highest priority to executing the ROP and FAST Programs on a highly competitive basis to insure high quality outreach and competition assistance, and subsequent beneficial results.

4. Benefits of the Rural Outreach and FAST Programs

High quality outreach and competition assistance enabled by the ROP and FAST Programs will increase the number of small businesses that engage and win in SBIR/STTR competition throughout the country. Achieving this goal is a win-win scenario manifested in at least two ways:

a. More highly qualified participants leads to more competitive SBIR/STTR Programs that secures their integrity.

b. States and regions under-performing in SBIR/STTR competition benefit from the creation and growth of small businesses nurtured by SBIR/STTR awards.

The FAST Program provides all states (and eligible territories) the opportunity to compete for SBIR competition assistance resources that can be applied to areas of need in each state. However, in FAST competition, under-performing states (that are likely to have low level SBIR competition infrastructure) compete against higher-performing states (that are more likely to have nicely honed SBIR competition skills). Hence, some under-performing states whose small businesses most likely have high need for competition assistance do not receive it. The ROP gives the under-performing states a "second chance" to capture outreach resources to begin nurturing SBIR competition infrastructure.

The table below shows the ROP and FAST awards for the first round of competition for each program (FY 1999 and FY 2001 for ROP and FAST, respectively). The data in the table shows the importance of ROP awards to some of the under-performing states that did not receive FAST awards.

An (*) after the state abbreviation indicates an ROP-eligible state or jurisdiction.

State	FY 1999 ROP Award	FY 2001 FAST Award		State	FY 1999 ROP Award	FY 2001 FAST Award
AK*	$70,000	$100,000		MT*	70,000	100,000
AL		100,000		NC		125,000
AR*	(see note)			ND*	70,000	
AZ				NE*	40,000	
CA				NH		100,000
CO		100,000		NJ		100,000
CT				NM		
DC*	25,000			NV*	40,000	100,000
DE*	25,000	100,000		NY		125,000
FL				OH		150,000
GA		125,000		OK*	(see note)	150,000
HI	(see note)	125,000		OR		
IA*	70,000	100,000		PA		
ID*	40,000			PR*	25,000	
IL				RI*	25,000	
IN*	70,000			SC*	40,000	100,000
KS				SD*	40,000	
KY*	40,000			TN		
LA*	40,000	150,000		TX		100,000
MA		100,000		UT		
MD		125,000		VA		150,000
ME*	40,000	150,000		VT*	70,000	100,000
MI		100,000		WA		100,000
MN		125,000		WI		100,000
MO*	25,000	100,000		WV*	25,000	
MS*	40,000	125,000		WY*	70,000	125,000
				Totals	$1,000,000	$3,450,000

Note that AR, HI and OK received ROP funding in the FY 2001 in the amounts $40,000, $80,000 and $80,000 respectively.

5. **Funding for the Rural Outreach and FAST Programs**

The authorization for ROP has been set at $2 million per year since its inception. However, actual ROP appropriations have varied significantly from year-to-year as shown by the numbers below:

FY 1999	$1,000,000	(first year funds were appropriated)
FY 2000	$500,000	
FY 2001	$1,500,000	
FY 2002	$500,000	
FY 2003	$500,000	(proposed budget)

This wide variation in year-to-year funding severely handicaps effective investment of the ROP resources both for SBA and state organizations implementing the Programs. Continuing these wide variations puts ROP on a path to certain failure. At the fully authorized level ($2,000,000 per year), the average amount of funds available per eligible state (25) is only $80,000 annually. This is a small amount of money to significantly impact SBIR competition, but at least enables a beginning in outreach and competition assistance.

An ROP budget of $500,000 (actual for FY 2002 and proposed for FY 2003) allows only $20,000 per state on average. This amount of funding will not yield beneficial returns. With this ROP budget, SBA is encouraged to award fewer larger awards (say 6 awards at $75,000 each) to the eligible states that are most deserving on a competitive basis.

The FAST Program is authorized at $10,000,000 annually. Yet the annual appropriations for FAST since the inception of the Program are as follows:

FY 2001	$3,500,000	(first year funds were appropriated)
FY 2002	$3,000,000	
FY 2003	$3,000,000	(proposed budget)

All 50 states and some territories are eligible to compete in the FAST Program. Hence, with only $3,000,000 available annually, the average annual funding to each eligible entity is less than $60,000. At the fully authorized amount, the average annual funding would be approximately $200,000 annually, an amount that would enable a meaningful competition assistance program.

(Note: The "average" amounts per state for ROP and FAST cited above is intended to indicate only an estimate for funds available per state. It is suggested that awards NOT be made based on the averages, but rather on a competitive basis.

The roles for ROP and FAST are complementary but serve different purposes, and both should be continued. Meaningful state outreach and competition assistance programs require that both be funded at the fully authorized amount (ROP, $2,000,000; FAST, $10,000,000). Funding ROP and FAST at current levels (ROP, $500,000; FAST, $3,000,000) puts at risk the potential benefits of both programs.

Every effort should be made to achieve the fully authorized funding levels in FY 2003 for both ROP and FAST. SBA is encouraged to propose and aggressively defend and fight for the fully authorized amounts for both ROP and FAST in subsequent budgets cycles.

6. SBA and the SBA Technology Office

Technology-based small businesses are key to America's future economy, and many states are initiating programs to nurture these enterprises. The State Science and Technology Institute (SSTI) Weekly Digest (www.ssti.org) regularly reports on individual states activities toward this end.

The SBIR and STTR Programs are widely acclaimed for their excellence and contributions in nurturing these technology-based small businesses throughout the country. The General Accounting Office consistently gives high marks to these programs, and the "findings" included in the recent legislation reauthorizing the SBIR and STTR Programs highlights their achievements.

The combined annual funding through the SBIR and STTR Program budgets is now in the neighborhood of $1.5 billion, up from roughly $0.5 billion at the time of the 1992 reauthorization of the SBIR Program, and initial authorization of the STTR Program. The sheer size of the SBIR and STTR Programs make it one of SBA's most important Programs. In addition to this, the technology focus of the SBIR and STTR Programs elevate its importance even more as evidenced by states' interest in technology business development for their future economies.

The focus on commercialization mandated by Congress in 1992 and implemented by the agencies has yielded ever-increasing success stories. These are sure to continue to grow.

SBA has oversight responsibility for the growing SBIR and STTR Programs that are vital to our small business and entrepreneurial communities and future economies. The responsibility for this oversight rests with the SBA Office of Technology.

But the priority and attention that SBA has given to the SBIR and STTR Programs has not kept pace with their growth. In fact there is compelling evidence that SBA's priority for the SBIR and STTR Programs has ***decreased*** over the last 10 years while the programs have ***increased*** in size, complexity and importance.

For example, the SBA website reveals that the SBA Office of Technology (responsible for SBIR and STTR Programs oversight) is buried deep within the SBA Headquarters organization. Specifically, the chain of command from the SBA Administrator to the Office of Technology is as follows (based on SBA website information):

SBA Administrator
SBA Deputy Administrator
SBA Chief of Staff
Associate Deputy Administrator, Gov. Contracting & Business Development
Deputy Associate Deputy Administrator, Gov. Contracting & Business Dev.
Associate Administrator, Office of Policy, Planning and Liaison
Assistant Administrator, Office of Technology

Given the size and growing importance of the SBIR and STTR Programs to the small business community, our states and nation, the SBA Office of Technology must be placed at a much higher level in the SBA organization. Doing so will enable this Office and the SBIR/STTR Programs to receive needed visibility, priority, authority, attention and resources.

I understand that in the past (when the program was much smaller and less complex), the Technology Office reported directly to the SBA Deputy Director. Further, I understand that the number of full time employees at the SBA Office of Technology has steadily decreased from about 10 at the time of SBIR reauthorization in 1992 to only 4 today.

This diminishing attention to the SBIR/STTR Programs and the SBA Office of Technology over the past ten years while the programs have grown in size, complexity and importance makes little sense. Consider a few of the changes that have occurred over the past 10 years that have added to the work load of the SBA Office of Technology:

The SBIR Program has more than doubled in size
The STTR Program was started
Reporting and database requirements have increased
Rural Outreach Program initiated
FAST Program initiated.

Current visibility, priority, authority, attention and resources vested in the Office of Technology is not consistent with the importance of the SBIR and STTR Programs to the small business community, states and the nation. Continuing the present scenario risks the future integrity of the SBIR and STTR Programs and related activities.

It is strongly encouraged that SBA elevate the Technology Office within the organization so that it will receive required visibility, priority, attention and resources.

Also, it is strongly encouraged that SBA carefully assess its Office of Technology resources needed to provide adequate oversight and administration of the SBIR/STTR Programs and related activities. The required resources should be made available, and the SBA Administrator held accountable for them. The integrity of the SBIR and STTR Programs depends on it!!!

If necessary, the GAO should be tasked to study SBA's leadership and management of the SBIR and STTR Programs, and recommend appropriate approaches and changes.

7. Closing Comments

Mr. Chairman and members of the Committee, I thank you for your vigilant work and support on behalf of the small business community, and the SBIR and STTR Programs. Your commitment and work is vital to the small business community. And again I thank you very much for the opportunity to present my testimony today.

NASMI

NATIONAL ASSOCIATION OF SBA MICROLOAN INTERMEDIARIES

November 30, 2001

Senator John Kerry
United States Senate
Washington, DC 20510

Dear Senator Kerry,

For FY 2002, the SBA Microloan Budget was reduced to the point that many intermediaries grant budgets may have to be reduced to the point that continued existence will be put in jeopardy.

The attached letter has been sent to OMB requesting the Administration increase funding for 2003.

Please support our efforts in getting the funding restored to its needed levels.

Sincerely,

Alan B. Corbet
NASMI Chair

Office of NASMI Chair c/o Growth Opportunity Connection
4747 Troost
Kansas City, MO 64110
telephone...816-235-6146...facsimile 816-756-1530

NASMI

NATIONAL ASSOCIATION OF SBA MICROLOAN INTERMEDIARIES

November 21, 2001

The Honorable Mitchell E. Daniels, Jr.
Director
Office of Management and Budget
Executive Office of the President
17th Street & Pennsylvania Avenue, N.W.
Washington, DC 20503

RE: Appropriations Request for FY 2003 for Microloans & Technical Assistance

VIA FACSIMILE AND FIRST CLASS MAIL 202-395-3729 & 202-395-1005

Dear Director Daniels:

As the Office of Management and Budget reviews and approves budget requests for FY 2003, the National Association of SBA Microloan Intermediaries (NASMI) asks that you help our nation's small business borrowers. We request that you fully fund the Small Business Administration's Microloan Program, including the technical assistance component, at its authorized levels. We strongly support these programs and the contribution they make to spurring economic development, fostering self-employment and creating jobs.

Across the country, millions of entrepreneurs are supporting themselves and building their communities through self-employment. Indeed, entrepreneurship is one of the United States' greatest assets – an asset that should be nurtured.

As the program was intended to do, a great percentage of Microloans have gone to traditionally underserved groups. SBA's Microloan Program has met the needs of these untraditional borrowers with minimal risk to the government. In fact, to date, the government has suffered minimal losses since the program was established ten years ago.

In a recent five-year study of low-income entrepreneurs receiving loans, training and technical assistance, access to markets and asset development services, 72% experienced gains in household income over five years. The average change in household income was $8,484 – rising more than 61% over five years. Participants also reduced their reliance on government assistance by 61% on average. Average assistance benefits declined by $1,679 a year.1 These results are extremely encouraging and suggest that microlending be looked at as a greater resource for the federal government in community development, economic development, poverty alleviation, and small business growth.

[1] Microenterprise and the Poor, Peggy Clark et al, Economic Opportunities Program, The Aspen Institute, 1999

Office of NASMI Chair
c/o Growth Opportunity Connection
4747 Troost
Kansas City, MO 64110
telephone...816-235-6146...facsimile 816-756-1530

Critical to the program's success is the integral role played by intensive technical assistance that Microloan Program intermediaries provide to their borrowers. The SBA funds approximately 180 community-based Microloan Intermediary lenders who provide loans and technical assistance to micro borrowers and new entrepreneurs.

To date, Microloan Intermediaries have made nearly $145 million in loans – averaging less than $20,000 per loan. In the past two years, the program has grown drastically, increasing the need for both loan capital and technical assistance grants.

As with most entrepreneurs, most Microloan borrowers require specialized technical assistance to grow their businesses. The Microloan Program meets this need by providing technical assistance grants to Microloan Intermediaries to allow them to provide limited assistance to borrowers in becoming credit-ready and to provide more extensive business technical assistance once they have received Microloans. Technical assistance resources are the key reason that the program has experienced a low loss rate despite the many high-risk loans that it is able to make.

Over the past three years, the Microloan Program has grown tremendously, with more than $110 million loans in outstanding from the SBA. It is imperative that funding, particularly technical assistance grants increase to match this growth.

The National Association of SBA Microloan Intermediaries (NASMI) encourages the Administration to support this program and small business by providing the following funding in their fiscal year 2003 Budget.

NASMI urges the Administration to budget $35 million for loan capital and $35 million for technical assistance grants in the Microloan Program.

There is strong bipartisan support in Congress for microenterprise development programs, such as SBA's Microloan Program. Sufficient technical assistance funding is essential to the success of these programs. We hope that the President's request for SBA's FY 2003 budget will include funding at the aforementioned levels. Lending experts recognize, and borrowers have testified, that increased technical assistance funding must go hand in hand with loan funding for the success of the borrowers.

We thank you for your past support of this important program and appreciate any efforts you may make to increase its funding to authorized program levels in FY 2003.

Sincerely,

Alan B. Corbet
NASMI Chair

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c/o Growth Opportunity Connection
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Kansas City, MO 64110
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Written Testimony for the Senate Small Business Committee
Bill Edwards, Executive Director
The Association for Enterprise Opportunity

Wednesday, February 27, 2002

Thank you, Mr. Chairman and members of the Committee, for the opportunity to present you with this important testimony. My name is Bill Edwards. I am the Executive Director of the Association for Enterprise Opportunity (AEO), the association representing more than 400 microenterprise development organizations around the country.

AEO, founded in 1991, is the national association of organizations committed to microenterprise development. AEO provides members with a forum, information and a voice to promote enterprise opportunity for people and communities with limited access to economic resources. The Aspen Institute estimates that there are at least 2-million low-income microentrepreneurs in the United States. Many microentrepreneurs, particularly those served by microenterprise development organizations, are low income, women, minorities, or disabled individuals who may face other challenges to business success as well. Microenterprise has been proven as an effective economic development and self-sufficiency strategy that reduces reliance on public assistance, creates jobs, and raises income, education levels, job skills and assets of poor and moderate-income entrepreneurs.

AEO's members provide this broad range of microentrepreneurs around the country with four key services:

- Credit and access to credit;
- Training and technical assistance;
- Access to markets; and
- Financial literacy and asset development.

Over the past decade, several Federal programs have emerged to provide funding support to microenterprise development programs across this broad range of services. This range of programs is seen in AEO's four policy priorities for this Fiscal Year. AEO would like to see the Microloan program funded at $35 million for both lending capital and technical assistance, PRIME funded at $15 million, the Office of Women's Business Ownership's Women's Business Centers Program funded at $14.5 million, and the CDFI Fund funded at $125 million. I will expand on these requests later in my testimony, focusing on PRIME in particular as I am aware that you will be receiving testimony from other individuals on Microloan and the Women's Business Centers.

Before discussing the individual programs, I would like to interject that it is difficult to see the differences in these programs from afar. I am confident that each of AEO's practitioner organizations can vouch for the very real differences in what Microloan, PRIME, and the Women's Business Centers do, who they serve and what outcomes they work towards. I know that many of the members of this committee have gone to see these programs and the impact that they have on microenterprises. I would urge those of you haven't done so, particularly those that have raised this charge, to visit any microenterprise development organization and see why they could not possibly be considered duplicative, except on paper.

Conventional sources of business credit, such as bank financing, are often beyond the reach of microentrepreneurs. These potential borrowers often seek very small amounts of capital, have poor credit histories and can offer banks little or no collateral. The SBA Microloan Program continues to solve this problem by funding more than 160 community-based intermediaries to help microentrepreneurs gain access to credit. To date, Microloan Intermediaries have made nearly $145 million in loans - averaging less than $20,000 per loan. Last year, the Microloan Program received $25.5 million in loan capital – more than $3 million less than the prior year, when there was insufficient loan capital for Intermediaries needs.

As with most entrepreneurs, many Microloan borrowers require specialized technical assistance to grow their businesses. The Microloan program meets this need by providing technical assistance grants to Microloan Intermediaries and Technical Assistance Partners to allow them to provide limited assistance to borrowers in becoming credit-ready and to provide more extensive business technical assistance once they have received Microloans. Technical assistance resources are the key reason that the Program has experienced a low loss rate despite the many high-risk loans that it is able to make.

The $17.5 million that Microloan received in Fiscal Year 2002 represented a $2.5 million cut in funding, or 12.5%. That however, has not been the true impact on the provision of services. Technical assistance grants are calculated as a percentage of outstanding loans for Intermediaries. Because the program has thrived, growing from $80 million in outstanding loans to $110 million, technical assistance was actually cut by 40%, rather than the overall 12.5%, for all Intermediaries. Technical assistance has been severely curtailed and several organizations will be forced to lay off staff. Only an appropriation of $35 million will allow the SBA to return funding to its FY 2001 level of 25% of outstanding loans.

In order to succeed in our complex economy, microentrepreneurs need training and technical assistance is areas such as financial management, book-keeping and marketing. In fact, a 1999 study by the Aspen Institute found that nearly 90% of microentrepreneurs do not seek microloans, but instead seek training, technical assistance and access to markets services. As indicated in BusinessStart's program statistics, this holds true for our program as well. The Program for Investment in Microentrepreneurs (PRIME) provides grants to microenterprise development organizations to offer training and technical assistance to entrepreneurs, regardless of whether they seek access to capital. Governing legislation stipulates that 50% of the PRIME Act's funds be used to support training and technical assistance for low-income entrepreneurs. A five year study by the Aspen Institute, the Self-Employment Learning Project, found that entrepreneurs receiving these services had highly favorable outcomes in household income and assets, business income and assets and reduced reliance on federal benefits.

The PRIME program is authorized to receive $15 million per year. Last year's $5 million funding level represented a 66% cut in the program and resulted in at least a $15 million decrease in training and technical assistance services that start-up businesses desperately need in a time of recession. PRIME grantees developed initiatives based on assumptions of continued funding and have now been forced to cut back on their services. I strongly urge Congress to assert that PRIME is an important program and fully fund it at $15 million this year.

The SBA's Office of Women's Business Ownership (OWBO) is the only federal office that specifically targets women business owners. Its Women's Business Centers provide training and technical assistance to women starting or expanding businesses. There are a total of 92 Women's Business Centers. Fifteen new Centers were added this year. The Centers are required to target services to economically and socially disadvantaged women, some of whom are

microentrepreneurs. The Centers create opportunities for networking among women business owners and are particularly responsive to their needs. Over the past ten years, Women's Business Centers have provided consulting, training and technical assistance to more than 50,000 women.

Thank you very much for this opportunity. AEO would be happy to answer any questions that the committee might have in the future.

February 19, 2002

Senator Kit Bond
274 Russell Senate Office Building
Washington, DC 20510

Dear Senator Bond,

The Alzheimer's Association, Central Maryland Chapter, recommends without reservation Melanie Sabelhaus' confirmation for the position of Deputy Administrator for the U.S. Small Business Administration.

The Alzheimer's Association recruited Mrs. Sabelhaus to serve on the board of directors two years ago because of her respected reputation as a community leader. During her term the Alzheimer's Association has benefited tremendously from her excellent leadership, and her organizational and management expertise.

She approaches every task with boundless energy, dedication and a high level of professionalism. She is an excellent manager of people, commanding the same high standards from those who work with her, while supporting and encouraging their efforts.

Given these strengths, Ms Sabelhaus is an invaluable asset to the U.S. Small Business Administration. The Alzheimer's Association whole-heartedly supports this appointment.

Sincerely,

Ruth Newman Fahrmeier
President

Don Graves, Jr., Esq.
Executive Director
BusinessLINC National Coalition
1615 L Street, NW, Suite 1100
Washington, DC 20036

Testimony of BusinessLINC National Coalition
before the
Senate Committee on Small Business and Entrepreneurship
Hearing on the Proposed FY '03 Budget for the Small Business Administration
February 28, 2002

Chairman Kerry, Ranking Member Bond and members of the Committee,

Thank you for the opportunity to provide testimony to the Committee. The Small Business Administration's (SBA) proposed budget for the 2003 fiscal year does not include funding for the BusinessLINC program. We find this particularly disappointing given BusinessLINC's proven success at the local level, the overwhelming support for this program by corporations, especially the Business Roundtable (an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and $3.5 trillion in revenues), the lack of programmatic alternatives to BusinessLINC at the SBA, and the relatively short amount of time the program has been in existence. In these difficult economic times it makes more sense to continue support for programs that promote economic growth and increased business-to-business partnerships than to eliminate them.

In 1998, the Treasury Department and the Small Business Administration, in partnership with other federal agencies, visited communities around the country to meet with hundreds of small business owners, corporate CEO's, and civic and business leaders to learn about the real-world partnerships of large and small businesses. Staff of the agencies conducted additional research, including in-depth interviews with experts, and a CEO working group which provided additional material and extensive input. The one constant to the research was the need of small businesses for relationships and working partnerships with large companies. Following those meetings, Treasury and SBA released a report entitled "BusinessLINC: Business-to-Business Relationships that Increase the Economic Competitiveness of Firms". This report catalogued those corporate relationships, identifying thirteen (13) different successful strategies, models and programs.

As a result of the report, the BusinessLINC program was created in 1999 as a public-private partnership led by the Small Business Administration and the Treasury Department on the federal side, and a national coalition of business and community leaders, led by the Business Roundtable (BRT) on the private side. BusinessLINC was officially launched in August of 1999 as a public-private partnership with the primary goal of encouraging large firms to provide mentoring, technical assistance, business advice, networking, investment and business opportunities for locally-owned smaller firms, particularly minority- and women-owned firms, and those located in economically distressed communities.

At the launch of BusinessLINC, the SBA, the Treasury Department and the BRT designated six (6) initial BusinessLINC local coalitions in Boston, Chicago, the Dallas/Fort Worth, New York

City, the Mississippi River Delta and Washington, D.C. Since that time, an additional seven (7) local coalitions have been announced in Cleveland, Flint, Houston, Richmond, San Francisco, Indian Country, and the Southwest Border. Each local coalition is chaired by a CEO of a major corporation and hosted by community, civic and business organizations in the region, matching small businesses with business units of large corporations located in that community. While the focus and activities of each coalition are based on one or more of the best practices models identified in the BusinessLINC Report, it became clear, early on, that each community was different and required different types of programs. The inherent innovation of the program, indeed, the key to its success has been the ability of local coalitions and their corporate partners to tailor the program to the specific needs of their small business community, adapting it to their own business climate. As a direct result of BusinessLINC, BRT members and other corporate partners have engaged in a wide range of partnerships with small businesses. Whether the local coalition provides mentoring, technical assistance, contracting or procurement opportunities, or some combination thereof, small businesses are given the opportunity to engage in close, long-term relationships with corporations.

While it is clear that small businesses receive benefits from the program, you may ask why BRT members and other large corporations would be interested in participating in it. First, the local coalitions provide a valuable service to large corporations, "vetting" the small businesses prior to matching them with their larger partners, ensuring that the small businesses are prepared and have the necessary tools to engage in relationships with the larger businesses. Second, whether the small business is the large corporation's just-in-time supplier of widgets, the on-site facility maintenance, the provider of legal or accounting services, or the downstream distributor upon which the large corporation relies to sell its products; the smaller business is absolutely necessary to the continued success of the larger business. Third, large businesses recognize that they are only as strong as the communities in which they are located and in which their employees live, and small businesses play an important role in securing community stability and economic viability.

Some have argued that BusinessLINC is no different from other SBA programs. While similar, BusinessLINC is the one program that takes the administrative work out of the hands of the large and small businesses, matching the small businesses with an appropriate partner based on its needs and on existing business and market opportunities. BusinessLINC also creates personal relationships between people who are still actively engaged in business on a day-to-day basis, and who understand the ins and outs of the particular industry.

Up to this point, BusinessLINC has been a strong partnership between the government, local communities and businesses. Federal funding has been used for the continued support of the local efforts, while the BRT and BusinessLINC's local partners have provided the needed support for the BusinessLINC National Coalition and for local matching funds. Unfortunately, local BusinessLINC coalitions have only begun to realize the many successes borne of their work. As you know, the attacks on September 11 reversed whatever economic progress was being made following the recession, creating a ripple effect throughout the economy, and, to large extent, the bottom line of small business. Now is not the time to eliminate a program that is creating economically viable partnerships between small and large businesses, and making a real difference in our towns and in people's pocketbooks.

Feb-21-02 11:37am From-ICBA 202-659-9216 T-109 P.002/002 F-128

INDEPENDENT COMMUNITY BANKERS of AMERICA

February 20, 2002

The Honorable Hector V. Barreto Jr.
Administrator
Small Business Administration
409 3rd Street, SW
Washington, D.C. 20416

Dear Mr. Barreto:

On behalf of the 5,000 members of the Independent Community Bankers of America, we urge you to continue adequate support for much needed small business lending programs. Specifically, the Administration's Fiscal 2003 federal budget jeopardized SBA small business lending in the 7(a) Loan Guaranty Program. While we estimate 7(a) loan demand to reach \$11 to \$12 billion, the Administration's proposed FY2003 program level to support \$4.85 billion in 7(a) loans is grossly out of sync with historic demand figures and current small business needs.

Additionally, we believe any proposal to shift 7(a) resources into the 504 loan program severely undermines the Administration's intended goal to support more "smaller" business loans in the \$150,000 range typically served by the 7(a) program.

The Office of Management and Budget has consistently overestimated the true cost of operating the 7(a) program -- overcharging more than \$1 billion in fees since 1992. This has resulted in an unjustifiable tax on our Nation's small businesses. This faulty OMB model must be modernized to accurately access true SBA lending program costs and to properly set fees paid by the lender and small business borrower.

Small businesses remain the engines for new job creation and economic growth. Given the current fragile state of our economy, this is no time to dramatically weaken needed small business resources. Our community-based financial institutions play a critical role in providing small business lending nationwide. We urge you to help ensure that the successful SBA lending programs are both accurately and adequately funded.

Sincerely,

Kenneth A. Guenther
President and CEO

Paul Merski
Chief Economist and Dir. of Federal Tax Policy

C: Sen. John Kerry, Chairman, Senate Small Business Committee
Sen. Chris Bond, Ranking Member, Senate Small Business Committee
Rep. Don Manzullo, Chairman, House Small Business Committee
Rep. Nydia Velazquez, Ranking Member, House Small Business Committee

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ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA

Statement of the

Independent Community Bankers of America

On the
"The SBA Fiscal Year 2003 Budget"

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
UNITED STATES SENATE

Wednesday, February 27, 2002
428A Russell Senate Office Building

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Successful SBA Loan Programs Need Budget Boost

The Independent Community Bankers of America is urging the Bush Administration and members of Congress to accurate and adequately fund the successful Small Business Administration 7(a) and 504 loan programs. These important SBA programs are widely used by many community banks to provide needed capital and credit to thousands of small businesses nationwide. Unfortunately, the Administration's Fiscal 2003 federal budget jeopardized the SBA's 7(a) Loan Guaranty Program. While ICBA estimates 7(a) loan demand could reach $11 to $12 billion, the Administration's proposed FY 2003 program level to support $4.85 billion in 7(a) loans is grossly out of sync with historic loan demand figures and current small business needs.

Excessive Program Fees Must End

Last year, ICBA testified before the House and Senate Small Business Committees on how the Office of Management and Budget has consistently overestimated the true cost of operating the 7(a) program -- overcharging more than $1 billion in fees since 1992. This has resulted in an unjustifiable tax on our Nation's lenders and small business borrowers. The General Accounting Office also issued a detailed report last year documenting this overcharge on small business lenders and borrowers. High fees associated with the 7(a) loan program make such loans less affordable and less attractive for banks and borrowers alike. Late last year, Congress helped to restore additional budgeting appropriations for the SBA loan programs and to temporarily cut some high SBA loan fees starting October 1, 2002. However, the funding battle must be fought again this year for the proposed fiscal 2003 federal budget, which again shortchanges the SBA loan programs and fails to meet small business lending needs. Worse yet, the Office of Management and Budget continues to rely on a faulty economic model that continues to overestimate the true cost of the SBA loan programs, forcing both lenders and small business borrowers to pay excessive fees. The time to fix this faulty economic model and end excessive fees is long overdue.

Fragile Economy Requires Adequate Small Business Resources

Small businesses remain the engines for new job creation and economic growth. Given the current fragile state of our economy, this is no time to dramatically weaken needed small business resources. Community banks play a critical role in providing small business lending nationwide, especially through SBA lending programs. As the U.S. economy begins to gains strength climbing out of recession, we estimate the proposed FY 2003 funding level for the SBA 7(a) program will afford only half the expected small business lending needs next year. Therefore, we urge the Bush Administration and Congress to restore adequate budget appropriations to support $12 billion in 7(a) lending in fiscal 2003. Providing needed capital resources to small businesses will help strengthen economic growth and foster much needed job creation. Thriving small businesses and a growing economy will in turn provide greater payroll and business income tax revenue back to the federal government.

While providing financial services for urban, suburban, and rural regions, forty percent of ICBA members are located in towns with a population of 2,500 or less, where adequate small business lending is critical to the local economy. Community bank small business lending through SBA loan programs fosters the well being of local communities, particularly small towns and rural America. The SBA's small business lending programs have served an important role in small business lending facilitated by community-based financial institutions.

The ICBA pledges to work with Congress to ensure our Nation's small businesses have the access to capital and credit they need to invest, grow, and to provide jobs and continued economic growth. With the fragile state of our current economy, we urge lawmakers to support adequate budget funding levels to maintain the highly beneficial SBA lending programs utilized by community banks to provide small businesses lending. Supporting accurate and adequate appropriation for SBA loan programs would go a long way in preserving a secure and competitive source of credit for small businesses and communities throughout our nation.

The ICBA represents more than 5,000 community-based financial institutions nationwide. Community banks are independently owned and operated and are characterized by attention to customer service, and lending to small businesses, farms, and consumers. ICBA's members alone hold more than $500 billion in insured deposits, $600 billion in assets and more than $365 billion in loans. They employ nearly 239,000 citizens in the communities they serve. Simply stated, our community banks are small businesses that serve the lending needs of small businesses in communities throughout America. Community banks are one of the key sources of credit and other financial services to small business -- the most prolific job creating sector of our economy. Small businesses employ sixty percent of the nation's workforce and have created two-thirds of all the net new jobs since 1970.

For additional information, please contact Paul G. Merski, ICBA Chief Economist & Director of Federal Tax Policy. 202-659-8111.

February 27, 2002

The Honorable John F. Kerry
Chairman
Senate Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

Dear Chairman Kerry,

On behalf of National Small Business United, the nation's oldest small business advocacy association, I would like to thank you for holding today's hearing on the Small Business Administration's fiscal 2003 budget. Our association has long been a supporter of the SBA, its loan programs, and, of course, its Office of Advocacy.

Overall, we believe that the Administration is moving in the right direction on several key SBA budget items, which is encouraging given the pressure on domestic discretionary spending. Many important programs have been recommended for funding at current levels or higher, and many have been proposed at significantly higher levels than have been proposed in the past. Specifically:

- The budget also would provide $26.6 million for SBA Microloans, $1 million more than in FY 2002.The budget proposes $795 million in new funding for disaster loans.
- The budget includes funding the agency's Small Business Development Center program at $88 million.
- The budget includes $1.5 million to fund the White House Conference on Small Business.
- The budget proposes $500,000 for the Office of the National Ombudsman.
- The budget proposes $1.1 million for the Office of Advocacy, the same as in FY 2002.

Many of these items represent key legislative and regulatory priorities for our association for the 107th Congress, and we are pleased that the SBA seems to be moving in the right direction in terms of allocating funds to those programs that need funding the most.

There is one major problem, however, with the President's proposed budget and it has to do with the Administration's plan to cut funding to the 7(a) program by more than 50 percent.

It is critical to note that The Small Business Administration's 7(a) Loan Guaranty Program is one of the agency's primary lending programs. It provides loans to small businesses that are unable to find other avenues for capital. The program operates through private, third party lenders that provide loans, which are, in turn, guaranteed by SBA. Since the SBA is a "lender of last resort," it is very likely that cuts to this program will translate into a number of small firms either floundering, or not even getting off the ground at all.

Each year, Congress is responsible for appropriating funds for this program. The amount of money appropriated then is used to fund the agency's loan activity. SBA loan programs provide approximately 40% of all long-term loans. The SBA 7(a) appropriations are leveraged almost 99 to 1 by the private sector, making this one of the governments' best economic development instruments. This program is well known for its success stories, enjoys a low default rate, and always returns funds to the Treasury.

However, each year, the Office of Management and Budget (OMB) calculates a "subsidy rate," based upon a number of factors. Theoretically, the subsidy rate equals the amount that the program costs the federal government. Unfortunately, OMB has consistently calculated a subsidy rate that is much higher than the program has actually cost. Therefore, federal appropriations and program fees have been unnecessarily high. This situation has gone on for a number of years now, as OMB has consistently refused to use the same criteria the lending industry has to calculate the subsidy rate. The result is basically a tax on small firms, as monies from the 7(a) program are always, as previously mentioned returned to the government treasury.

While I am sure that you will hear testimony from those more expert in the calculation of subsidy rates today, our case is simple: the more OMB refuses to come up with a reasonable and accurate calculation, the fewer small firms have a chance in today's economy.

I appreciate the opportunity to make our organization's views on this matter known, and I am always available to answer any questions or concerns you or any member of this fine committee may have.

Sincerely,

Todd McC

Todd McCracken
President

NASBIC
America's Small Business Partners

Statement
of
Lee W. Mercer
President

National Association of
Small Business Investment Companies

Submitted To The

United States Senate
Committee on Small Business and Entrepreneurship

February 27, 2002

National Association of Small Business Investment Companies
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Chairman Kerry, Senator Bond, members of the Committee:

On behalf of the National Association of Small Business Investment Companies, I appreciate the opportunity to submit testimony today concerning the Administration's FY 2003 SBIC program budget proposal. I am pleased to report that the budget has the unqualified support of the SBIC industry. We urge the Committee to support the SBIC budget proposal as submitted.

The budget calls for the availability of $4 billion in Participating Security leverage and $3 billion in Debenture leverage. As is the case this year, FY 2003 leverage would be supported 100% by fees and interest paid to the government by Debenture SBICs and by fees, prioritized payments, and profit distributions paid to the government by Participating Security SBICs. The per annum portion of those costs will be virtually unchanged from the FY 2002 rates. Thus, as is the case this year, no appropriation will be required to make $7 billion available. When added to the minimum required private capital, $10 billion in new capital will be made available for SBIC investments in U.S. small businesses.

At a time when the U.S. economy can use all the financial help it can get, SBICs are proving their value as steady and reliable sources of venture capital for America's small business entrepreneurs. For the fiscal year ended September 30, 2001, SBICs invested $4.6 billion in 2,254 companies. Although the total invested was down 18% from the record $5.5 billion of FY 2000, it was 7% more than the $4.2 billion invested in FY 1999, with 14% more companies receiving financing than in FY'99. Of great importance to small businesses seeking capital, SBICs are proving to be a far more stable source of financing than non-SBIC venture capital funds. According to Venture Economics and the National Venture Capital Association, for the same fiscal 2001 period, all venture capital investments totaled $52.3 billion, down 51% from $106.1 billion the total invested in the same fiscal 2000 period. Calendar-year statistics are even more revealing. All venture capital investments dropped from $99.6 billion in 2000 to $36.6 billion in 2001—a 63% drop. SBIC investments dropped just 3% for the same period.

SBICs continued to be a significant source of capital for new businesses, with 58% of all FY 2001 investments made in companies in business for three years or less. The average size of investments by all SBICs continued at the $1 million mark while non-SBIC investments averaged $11 million for the same period. For leveraged SBICs, the average and median investment sizes were well below the $1 million level. These numbers speak to the importance of SBIC capital to the great numbers of younger, smaller, less capital-intensive companies that become important parts of the economic foundations of their respective communities. In this regard, it is interesting to note that almost $1 billion, 22% of total investments, were made in companies located in Low- and Moderate-Income areas as defined by the government. I have attached a sheet containing some of the relevant FY 2001 SBIC investment statistics to further underscore that SBICs are producing the results that Congress intended when its redesign of the program became effective in FY 1994. We are pleased to note that the Administration has also recognized the effectiveness of the SBIC program in its rating of SBA programs for budget allocation purposes.

Total SBIC capital resources rose from $15.4 billion at year-end FY 2000 to $18.8 billion at the close of FY'01—an increase of 22%. Further, despite the fact that raising venture capital is substantially more difficult at present, the SBIC program continues to grow. Private investors

committed $1.1 billion in new private capital to the 51 new SBICs licensed in FY 2001, down 9% from FY 2000, but 47% more than the $747 million committed in FY 1999. The backlog of current license applications at SBA and the rate at which new applications are being received make it likely that a similar number of new funds will be licensed this year. This will ensure the continued flow of critical venture capital to the fast growing U.S. small businesses that are the foundation of U.S. job creation and economic growth.

With the jarring economic contraction we have experienced over the past 18 months or so, some losses in the SBIC program are to be expected. Economic business cycles apply to SBICs just as they do to all other business endeavors. However, the SBIC program remains strong. The SBIC program is designed to stimulate the flow of scarce venture capital to U.S. small businesses in such a way that over time the government neither makes money nor loses money in connection with the augmentation of private capital by government-guaranteed capital. Using a complex model, the Office of Management and Budget (OMB) sets the "reserves" that must be established each year to meet potential out-year losses associated with the projected failure by some SBICs to repay some or all of their leverage. While there is no "lock box" for the annual reserve amounts, they are made up of fees, interest, prioritized returns, and profit shares paid directly to the government by SBICs and, when required, annual appropriations agreed to by Congress. The balance of these "reserves" for the period FY'94–FY'01 was approximately $500 million at the close of FY'01. Since the private capital of each fund is at risk before government-guaranteed capital, the practical reserves are even greater, and more funds are being added to reserves in FY'02. The program is in a strong position to weather the current economic cycle over time and will all the while continue to be a constant source of venture capital for starting and expanding U.S. small businesses.

Suggested Legislation

We ask your continued support for legislation that would exempt income received by tax-exempt institutional investors from Debenture SBICs they might invest in from treatment as Unrelated Business Taxable Income (UBTI) under the Internal Revenue Code (IRC). These investors include pension funds, charitable foundations, and university endowment funds. UBTI is subject to filing requirements and taxation and creates a strong, almost total, disincentive for tax-exempt investors that might otherwise be interested in investing in one or more Debenture funds. The exemption would provide Debenture SBICs with access to substantial sources of potential private capital that are not available to them at present, capital sources that are available to Participating Security SBICs and other equity based venture capital funds. We note with appreciation the fact that Democrats and Republicans cleared the proposed amendment during debate on the recently considered but not passed economic stimulus bill. We hope there will be another bill this year that serves as the vehicle for passage of the amendment.

UBTI is created automatically by Debenture SBICs because government guaranteed capital used to augment private capital in the Debenture program is borrowed capital. It is structured that way by the provisions of the Small Business Investment Act. The IRC treats the borrowed capital as "acquisition indebtedness," indebtedness that triggers UBTI. This is unlike the Participating Security program wherein the government-guaranteed capital is structured as an equity investment by the government in the SBICs receiving the same.

UBTI treatment makes it virtually impossible for Debenture SBICs to raise private capital from tax-exempt institutional investors. The reason is not that tax-exempt institutional investors do not invest in venture capital funds. They do. According to Thomson Financial / Venture Economics of Newark, New Jersey, institutional investors provide as much as 60% of the capital invested in venture capital funds each year. However, given the option of investing in venture capital funds that create UBTI and those that do not, it is not surprising to learn that tax-exempt investors almost always opt to invest in the latter category of funds. Investments in equity-based funds do not create UBTI for tax-exempt investors.

The disincentives of UBTI tax rules have no place in the context of fundraising for the SBIC program. The express congressional policy of the Small Business Investment Act is: "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 loans which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization ... provided, however, that this policy shall be carried out in such a manner as to insure the maximum participation of private financing sources." Section 102 of the Act, emphasis added. Private capital held by tax-exempt organizations represents the large majority of private capital potentially available to SBICs for investing in domestic small businesses. To advance the express policy of the Small Business Investment Act, it is reasonable that Congress exclude from the definition of UBTI any income received by a tax-exempt organization that is derived from an investment in an SBIC.

The Debenture SBIC program was designed to enable Debenture SBICs to make loans to small businesses that are generally subordinate to, and may be the basis for, more senior credit facilities from commercial banks. As such, these subordinated loans are often critical to the survival of the small businesses that secure them. Such loans are particularly suited for family-owned businesses that may never reach the growth required to "go public," or, for companies whose owners may never want to give up equity in (or control of) their companies by the sale of large blocks of stock. These companies are often found in the heartland of America, not the "hot" locations that typically attract media attention. Nonetheless, these companies are important to America's economic wellbeing in general and the health of their local communities in particular. They are often primary employers in the areas in which they are located.

There will be little or no tax revenue loss if an exemption from UBTI consequences is provided for tax-exempt institutional investors investing in Debenture SBICs. At year-end FY 2001, we estimate that less than $35 million in tax-exempt investor funds were invested in Debenture SBICs—only 2% of the $1.6 billion in private capital invested in all Debenture funds. We estimate the revenue impact will be no more than $1 million per year. We have strong support in the Senate for the proposed change. We hope that, following your consideration of the issues involved, the Committee will support the proposed change as well and work with the Ways and Means Committee to see it included in an appropriate piece of legislation. Adopting the change is the single most effective step Congress could take this year to increase private capital investment in Debenture SBICs and, therefore, in the small businesses they serve.

Thank you again for your consideration our views. We look forward to working with you again this year to further improve the SBIC program and its ability serve America's small businesses.

NASBIC
America's Small Business Partners

Small Business Investment Company Program Statistics
Fiscal Year 2001 SBIC Data From SBA Reports

Investments By Type Of SBIC	Number	Total $ Amount	$ %	$ Average	$ Median
Participating Security SBICs	1,879	1,443,486,832	32%	768,221	300,000
Debenture SBICs	1,256	694,087,131	16%	552,617	163,161
Bank SBICs (No Leverage)	832	2,272,926,251	51%	2,731,883	1,064,275
Specialized SBICs	310	44,774,829	1%	144,435	50,000
Total Investments	**4,277**	**4,455,275,043**	**100%**	**1,041,682**	**257,500**
Category Of Investments					
Straight Debt	1,066	289,633,931	7%	271,702	78,133
Debt With Equity Features	1,349	903,422,529	20%	669,698	225,000
Equity Only	1862	3,262,218,583	73%	1,751,997	796,127
Total Investments	**4,277**	**4,455,275,043**	**100%**	**1,041,682**	**257,500**
Investments By Business Age					
Under 3 Years	2,285	2,568,339,023	58%	1,124,000	250,000
3 to 6 Years	924	969,993,147	22%	1,049,776	334,056
6 to 10 Years	436	285,358,160	6%	654,491	249,498
Over 10 Years	632	631,584,713	14%	999,343	267,337
Total Investments	**4,277**	**4,455,275,043**	**100%**	**1,041,682**	**257,500**
Investments By Business Type					
High Technology Businesses	1,664	1,916,853,818	43%	1,151,955	400,500
All Other Businesses	2,613	2,538,421,225	57%	971,459	210,000
Total Investments	**4,277**	**4,455,275,043**	**100%**	**1,041,682**	**257,500**
Investments In LMI Areas					
Low-Income Areas	633	562,146,200	13%	888,067	160,000
Moderate-Income Areas	487	425,416,973	10%	873,546	200,000
Total LMI Investments	**1,120**	**987,563,173**	**23%**	**881,753**	**186,463**

Notes:

1. A total of 2,254 small businesses received SBIC financing from 4,277 investments made in FY 2001.
2. The median number of employees in SBIC-financed companies in FY 2001 was 30.
3. The average non-SBIC venture capital investment equaled approximately $11 million in 2001.
4. Approximately 85% of all non-SBIC venture capital investments are made in high-technology firms.
5. Participating Security SBICs had distributed $279 million in profits to SBA through February 6, 2002.
6. SBIC investments were 55% of transactions and 12% of total dollars for January-September 2001.

National Association of Small Business Investment Companies
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February 22, 2002

Senator John Kerry
304 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Kerry:

Please be advised that the Nantucket Historical Association enthusiastically endorses the appointment of Melanie Sabelhaus to a senior position with the U.S. Small Business Administration. As Chair of the 2001 NHA Summer Antique Show, for which you and Mrs. Heinz served as Honorary Chairs, Ms. Sabelhaus raised a record $505,000 to support NHA educational and restoration programs. In so doing she demonstrated amazing leadership abilities and proved herself a natural leader capable of motivating over a hundred volunteers. She is a bright, energetic individual fully committed to improving the community of Nantucket and the Historical Association in particular.

We trust that you will find it appropriate to support her appointment.

Yours sincerely,

Frank D. Milligan, Ph.D.
Executive Director

NANTUCKET HISTORICAL ASSOCIATION
P.O. BOX 1016, NANTUCKET, MA 02554 1016 / TEL 508-228 1894 / FAX 508-228 5618

HUBZone Contractors National Council
Ronald S. Newlan
Chairman

Written Testimony Regarding The U.S. Small Business Administration's FY 2003 Budget

Chairman Kerry and Ranking Member Bond:

It is an honor to submit the HUBZone Contractors National Council's views of the U.S. Small Business Administration's budget for FY 2003 to the U.S. Senate's Committee on Small Business & Entrepreneurship.

This Council is the only national trade association that focuses all of our efforts into monitoring public policy and promoting actions that support the well being of the HUBZone Empowerment Contracting Program. This Committee knows so well the possibilities that the HUBZone Program represents to the most needy areas of our Nation. The HUBZone Act of 1997 (P.L. Law 105-135) was enacted to bring job opportunities and capital investment to 8,000 underutilized areas of our Nation.

In FY 2003 the Act requires 3% of all Federal contracting dollars to be awarded to prime contractors designated as HUBZone Small Business Concerns by the U.S. Small Business Administration. This represents approximately $6 billion in new contracts awarded to firms located in HUBZones. HUBZones represent the Nation's most distressed areas of high poverty and high unemployment. This $6 billion in Federal prime contract awards would bring at least 60,000 new jobs to current HUBZone residents and another +100,000 jobs to the firms located in HUBZones. With the slumping economy, these jobs are vital to our inner cities, poor rural counties, and our Indian reservations.

I would like to remind the members of the Committee that the backbone of the HUBZone Empowerment Contracting Program is the use of HUBZone set-aside competitions. Virtually all contracts awarded to firms under the HUBZone regulations are awarded through competition. This ensures a fair and reasonable price for all goods and services bought by the Federal Government. This is a great Program for both buyer and seller!

The HUBZone statute has been in effect for more than three years. The statute initially applied only to the ten largest Federal Departments and then it subsequently became effective for all Federal Departments/Agencies. No Department has even come close to meeting its FY 1999, 2000, or 2001 goals for HUBZone contracting. GAO recently examined the HUBZone Program and cited several reasons for this ineffective implementation within the Federal Departments. The result of all of this is simply that the Federal Departments are choosing to ignore the statute and to not implement it. The Council's view of this is that the Federal Departments are choosing not to comply with the

law because there is no "ever vigilant" watchdog for the Program other than this Committee and the severely under funded HUBZone Program Office in the SBA! There is no penalty for non-implementation—except that the quality of life for America's most needy is ignored.

This Council believes that the first step to improving the compliance with the statute is to properly fund the SBA HUBZone Program Office. Today, the office is staffed with less than 10 full time equivalent personnel. These individuals are located at the SBA's headquarters. The office has no direct personnel in the SBA field offices. The headquarters staff does a superb job of keeping the Program moving in the right direction but the office has historically been severely under funded by the former Administration that clearly had no interest in focussing on HUBZone implementation.

The current SBA HUBZone Program Office staff has created a model of the 21st Century e-commerce office of the future. The HUBZone electronic application is recognized throughout the Government as being a model worthy of imitation. The HUBZone web site with its intricate geographic mapping software is state of the art. If it were not for SBA staff innovations such as these, the Program would have fallen flat due to lack of resources. It is past time to rectify this severe under funding.

The authorizing legislation established HUBZone annual funding levels for FY 2001-2003 of $10 million. Unfortunately, actual appropriations for this period have ranged from $1.8 to $2.0 million annually. The Council asks this Committee and the Congress to appropriate the full $10 million for FY 2003. This money is urgently needed to:

- Allow the SBA Program Office to oversee, monitor, and ensure Program implementation by all other Federal Departments to meet or exceed the 3% goal (the best year to date has delivered far less than one half of this amount)

- Allow the SBA HUBZone Program Office to position some resources in the field to facilitate Program implementation to the areas of our Nation that are most needy

- Allow the SBA HUBZone Program Office the resources to properly conduct random examinations to ensure compliance and avoid Program abuse by non-qualified firms.

There will be a significant return on the investment of this additional $8 million. For each additional billion dollars contracted to HUBZone firms in FY 2003, at least 10,000 HUBZone residents will be hired on the new contracts. Thousands of these individuals are unemployed or under-employed today. In addition, to the direct hires for the new contracts, a requirement will also be created to support these direct hires (restaurants, laundries, construction of office buildings and factories, etc.).

Summarizing the benefits, the Nation will incur:

- Reduced welfare payments
- Increased tax revenues on the increased wages (Federal, state and local)
- Increased capital investment in HUBZones by the private sector to meet the demands of the new contract jobs—factories, office buildings, restaurants, stores, etc.
- Improved quality of life for HUBZone residents

No other Federal small business contracting program offers this type of "return on investment" for only $8 million.

In addition to increasing the levels of the HUBZone Program's appropriations, I would like to recommend that the Committee consider increasing the SBA's appropriations to allow the Administration to hire 30 additional Procurement Center Representatives (PCRs). The number of PCRs today is incredibly low. These PCRs are vital to ensuring that all small businesses—women-owned, SDBs, 8(a)s, HUBZone SBCs, disabled veterans, and others are given an opportunity to compete for and win business. This is especially vital in today's era of bundling, GWACs, GSA schedule buying, credit card purchases, etc. Today only about 10% of the Government's 2,250 procurement centers have a PCR. The PCRs are the first line of defense of all small business procurement programs. We need more PCRs to halt the erosion of small business contracting.

Lastly, I cannot conclude without talking about two small, but meaningful, examples of the effects the HUBZone Program can have on the lives of people living in the poorest neighborhoods of America. The first example is that of a young African-American single mother of two boys, who is also caring for her elderly mother and grandmother. Until she was hired by a HUBZone firm that was recently established in her neighborhood, this young mother was struggling trying to balance all of her responsibilities while working long and hard hours at a retail store. Her hope was to one day find a job that would allow her to work regular office hours, Monday through Friday, bring enough income into the household to make ends meet, and that offered the vital health benefits for her and her family. Aside from the fact that this job did not exist in her neighborhood, she was also faced with the fact that she did not have the administrative skills to be hired in the type of job she wished for even if one did materialize. I am delighted to report to you that for the past year this young mother has been working for a HUBZone firm as the Administrative Assistant to the company's President. She has learned all of the basic office skills as well as many of the latest technologies required to operate a business today. Her job is within walking distance from her home which allows her the flexibility to care for her children's needs during the day. She has first class health benefits for herself and her family, and even has a 401K plan! Cases similar to this one are being repeated dozens of times daily throughout America because of the HUBZone Program.

The second situation does not have the same happy ending. It involves a young couple who decided to run with their dream and open a small neighborhood deli in a commercial area of the HUBZone in which they live. Unfortunately, they are surrounded by large

retail stores that are suffering through the tough economy subsequent to 9/11. If this neighborhood deli had been surrounded by successful HUBZone government contracting firms, this young couple would have had a very successful business, instead they have now been forced to file for bankruptcy protection.

Senators, you can make a difference. I urge you to support the HUBZone Contractors National Council's requests contained herein.

Thank you for your time and continued support of the HUBZone Program.

Subj:	**Senate confirmation-Reference for Melanie Sabelhaus**
Date:	2/25/02 4:54:54 PM Eastern Standard Time
From:	*tesner@umbc.edu (Barbara Tesner)*
To:	*richard.spence@sba.gov*

The Honorable John Kerry
United States Senate
Chairman
U.S. Committee on Small Business Entrepreneurship

RE: Senate confirmation – Letter of reference for Mrs. Melanie R. Sabelhaus

Dear Senator Kerry:

This letter is in support of Mrs. Melanie R. Sabelhaus' Senate confirmation as Deputy Administrator of the Small Business Administration. I serve as the Association of Fundraising Professionals (AFP) - Maryland Chapter Chair of the Volunteer Fundraiser Award Committee. Mrs. Sabelhaus has been selected as the 2002 AFP-Maryland Outstanding Volunteer Fundraiser and I would like to provide you with information on her receipt of this award and the award selection criteria.

For the past sixteen years, the Association of Fundraising Professionals, Maryland Chapter has designated an annual award to recognize outstanding achievement by individual fundraising volunteers in the state of Maryland. Honorees exemplify extraordinary commitment to the well being of our community through fundraising for area nonprofit organizations. One individual is selected annually who has made exceptional contributions of time, talent and dedication to area nonprofit organizations' fundraising activities. The honoree must have demonstrated exceptional leadership skills for one or more major fundraising projects on behalf of nonprofit organizations. In addition to leadership skills, the honoree also demonstrates a commitment to the advancement of philanthropy in general. The criteria for nomination are specific. Clear examples must be provided of the following: Quality of leadership and organizational abilities in fundraising campaigns; Extent of time and effort contributed to the cause; Proportionate financial results of nominee's efforts; Success in recruiting and motivating others; Participation in multiple nonprofit organizations.

The Maryland Chapter, AFP, is proud to honor Mrs. Melanie R. Sabelhaus as its 2002 Outstanding Volunteer Fundraiser in Maryland. Based on the criteria outlined above, Mrs. Sabelhaus was selected due to her involvement in many community and philanthropic activities. As 2000-2001 Chair of the United Way of Central Maryland's Women's Initiative, she launched this new program to acclaimed success. Most recently, she joined the Alzheimer's Association Board, joined the United Way of Central Maryland Board, Chaired the Nantucket Historical Association Antique Show, and agreed to Co-Chair the Women's Initiative National Summit for United Way. Mrs. Sabelhaus always has the needs of our community on her mind when speaking to the public, friends, family, and prospects. She leads by example and is an inspiration to younger women as well as her peers.

The Selection Committee is composed of former AFP-MD volunteer fundraiser award winners who are active community leaders. The 2002 Selection Committee is comprised of: Sheila Riggs, Chair; Michael J. Batza, Jr., J. Henry Butta, Harlow Fullwood, Jr., Frank A. Gunther, Jr., Mary Ellen Gunther, Richard E. Hug, Earl L. Linehan, Bernard Manekin, George V. McGowan, Eleanor Rosenberg, Walter Sondheim, Past Chair; Carole Sibel, J. Scott Wilfong, Jay M. Wilson.

Background on the Association of Fundraising Professionals (AFP): The Association of Fundraising Professionals, Maryland Chapter, exists to foster the growth and development of a culturally diverse population of fundraising executives, enhance philanthropy by encouraging giving and volunteering, and promote ethics in fundraising and sound nonprofit management throughout Maryland. AFP has 161 chapters and over 25,000 members throughout the world. The Maryland Chapter has nearly 400 members and represents more than 150 nonprofit institutions.

Please let me know if I can provide additional information, or if I can be of further service to you. The date of the 2002 Outstanding Volunteer Fundraiser Award luncheon honoring Mrs. Melanie R. Sabelhaus is Tuesday, May 7, 2002, from 12:00 p.m. to 1:30 p.m., at The Sheraton Baltimore North Hotel in Towson during the Fundraising Day in Maryland Conference sponsored by AFP, Maryland Chapter. Please let me know if you or your staff would like to attend.

Respectfully yours,

Barbara Tesner
Sr. Major Gifts Officer
UMBC
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1000 Hilltop Circle
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Organization: UMBC: An Honors University in Maryland (www.umbc.edu)
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To: richard.spence@sba.gov
Subject: Senate confirmation-Reference for Melanie Sabelhaus
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file

United Way
of Central Maryland

LARRY E. WALTON
PRESIDENT AND CHIEF PROFESSIONAL OFFICER

February 22, 2002

Senator John Kerry
304 Russell Senate Office Building
Washington, DC 20510

Dear Senator Kerry:

Re: Melanie Sabelhaus

It is a pleasure to write this letter of recommendation on behalf of Melanie Sabelhaus, who has been nominated to serve as Deputy Director of U.S. Small Business Administration.

Melanie is a member of our Board of Directors and serves as chairperson of our Women's Initiative, which involves leadership giving and strong community participation by leading women in our community.

Melanie is an outstanding volunteer and individual with an extremely strong set of personal skills, which I am confident will serve the Bush administration very well.

It is truly an honor for us to support her nomination.

Sincerely,

LEWalton

Larry E. Walton
President and Chief Professional Officer

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Small Business Technology Coalition

Testimony of

Ed Wenger

President and CEO
Prospective Computer Analysts, Inc.
Garden City, NY

And Chairman of the Board
Small Business Technology Council

BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

Regarding the Fiscal Year 2003 Proposed Budget for the US Small Business Administration

27 February 2002

1156 15th Street NW, Suite 1100
Washington, DC 20005-1708
202-785-4300 Fax: 202-785-4345
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A Council of National Small Business United

Chairman Kerry, Senator Bond, members of the Committee, thank you for inviting the Small Business Technology Council to offer its views on the proposed SBA budget for Fiscal Year 2003.

I am Ed Wenger, the Chairman of SBTC's Board. SBTC is a nonpartisan, nonprofit industry association dedicated to promoting the creation and growth of research-intensive, technology-based US emerging businesses. SBTC is a council of National Small Business United (NSBU), the nation's oldest small business advocacy organization.

I am also the President and CEO of Prospective Computer Analysts, Inc., of Garden City, New York, a company that I founded in 1975. I have a background in engineering and law, and I have served as Chairman of the American Bar Association Committee on Computer Software Protection. I also helped shape technology and procurement issues for the White House Conference on Small Business in 1995.

My company produces software for testing, quality assurance, training and knowledge storage, as well as automatic test equipment products and antenna couplers. We have facilities in four states -- California, Florida, Georgia and New York -- and we sell our products both in the US and abroad.

Small Technology Companies and the SBA

The US Small Business Administration supports the development of small, technology-based companies in a number of ways. Broad programs like 7(a) lending, Small Business Investment Companies and the ACE network all contribute. But the most crucial role that SBA plays for the largest number of small technology companies is in administering the Small Business Innovation Research and Small Business Technology Transfer programs.

Both programs have been remarkable success stories. Scores of important innovations -- in basic science, in health care, in energy, in the space program -- have emerged from SBIR and STTR. Small business participants in these programs also have made significant contributions to national defense and homeland security, which are especially critical concerns today.

Under SBIR, the federal agencies that do the most extensive research use small businesses to help them. These agencies ask small businesses to undertake research

projects that support the agencies' missions and research needs. The resulting proposals are competitively bid and evaluated. A small portion of the agencies' research budgets is allocated to fund them. Later on, a select number of these projects are carried forward from concepts to prototypes to full commercialization through Phases II and III of SBIR.

Because every objective assessment of SBIR over the past twenty years has concluded that the program works well, and because a number of agencies are enthusiastic supporters of it, the size of the program has grown. In Fiscal Year 1991, for example, SBIR awards totaled $483 million government-wide. By FY2000 this figure had grown to $1.1 billion.

Meanwhile, the STTR program has grown from $18 million at its inception in FY1994 to $69 million in FY2000. Last year, with this Committee's strong support, the program was doubled in size.

SBA's Office of Technology

Monitoring and administering programs of this size is a serious responsibility. And SBTC is concerned that SBA is not keeping up with that responsibility.

SBA's budget numbers are revealing. As SBIR and STTR have grown, SBA's Office of Technology, which administers both programs, has shrunk.

In FY1991, the Office of Technology had a budget of $907,000 and a staff of ten. By FY 2000, the budget had been cut almost in half, to $530,000. And the staff had been reduced to six. Today, the Office's budget is even smaller, and its staff is down to five.

In 1991, the Office of Technology reported directly to the SBA Administrator. Later on, it reported to the Deputy Administrator. Now it reports to mid-level officials well below either of them.

The impact of the cuts and the lower visibility has not been hard to detect.

- When SBIR was reauthorized in December of 2000, Congress told SBA to publish new guidance for the agencies on Phase III of SBIR by the summer of 2001. To date, that guidance still has not been finalized. Consequently, agencies across the government have become increasingly uncertain about how to manage Phase III. Companies that might participate in the program are unsure about what will be expected of them.
- Toward the end of last year, one element of the Defense Department, the Ballistic Missile Defense Organization (now called the Missile Defense Agency), asked the House Appropriations Committee to reduce its SBIR program from about $147 million to a "minimum" of $75 million. SBA expressed no opinion on this unprecedented breach of the SBIR program, either to the House appropriators, the conferees, or even the Congressional Small Business Committees, and it was enacted.

- In 2000, Congress mandated that a database of companies receiving SBIR awards be created. To date, SBA's databases of SBIR awards are incomplete beyond 1998. So it is hard to know if there are problems at the agencies making the awards.

- SBA's five-year *Strategic Plan*, a 43-page document posted on the agency's website, makes only the barest passing references to SBIR and STTR. Neither the programs nor their objectives are mentioned at all in such sections of the *Strategic Plan* as: "Who We Serve – Our Customers", "How We Work – Our Core Values", "How We Make A Difference", "Resource Partners", "Data Quality", "Future Program Evaluations" and "Mission". And while specifying performance and outcome measurements for most other functions of SBA, the *Strategic Plan* specifies none for SBIR or STTR.

SBTC is pleased that the Committee's Chairman, Senator Kerry, raised concerns about the Office of Technology's downward spiral at the confirmation hearing for SBA Administrator Hector Barreto. And we trust that Mr. Barreto has now had time to examine the situation and recommend improvements.

We also applaud Senators Kerry and Bond for sending a bipartisan letter to Defense Secretary Rumsfeld, reminding him of the Department's statutory obligations under SBIR, notwithstanding the appropriations carve-out claimed by BMDO / MDA.

A Need For A Different Budget Priority

Perhaps we need to say it again. The SBIR and STTR programs are vital to this country's small technology companies. They are vital to our nation's quality and quantity of technological innovation, which is a foundation of our economic growth and our place in the world.

And the historical record shows that they are vital to America's defense and homeland security.

The Office of Technology at SBA is to a considerable degree in charge of all this.

It is also in charge of monitoring the expenditure of more than a billion dollars a year of the taxpayers' money. That money is going out in small awards which urgently require SBA guidance and oversight.

There is not a single venture capital fund, anywhere in the world, larger than the SBIR/STTR programs. Nor is there a single one anywhere better situated to leverage technology for the overall good of the United States.

And yet, is there a venture capital fund anywhere, of even a fraction this size, so thinly resourced and staffed? Is there a parent company anywhere that would be as indifferent to this unique resource as SBA seems to be? A parent company that would set up an *inverse relationship between the funds under management and the capability to manage those funds*?

Leaving the Office on its current downward glidepath is an invitation to more and bigger problems.

SBTC strongly urges this Committee to reverse SBA's course and provide the Office of Technology with the resources and the standing within SBA that it needs to handle its critical responsibilities.

APPENDIX MATERIAL SUBMITTED

SBA BUDGET REQUEST AND PERFORMANCE PLAN

FY 2003 CONGRESSIONAL SUBMISSION

EXECUTIVE SUMMARY

Small business is the foundation of our Nation's economy. It remains the swiftest and surest way of achieving the American Dream, regardless of one's beginnings. Small businesses serve as market laboratories for conceiving, testing, and proving new ideas, accounting for more than half of all innovation. The number of small businesses has increased 49 percent since 1982, and almost a quarter of U.S. households now are starting a business, own a business or are investing in someone else's business.

Small businesses:
- Represent 99 percent of all employers and 52 percent of the private workforce,
- Employ 38 percent of the private workers in the hi-tech field,
- Provide three-quarters of all net new jobs,
- Provide 50 percent of all private sector output, and
- Represent 96 percent of all exporters.

In FY 2003, SBA will celebrate its 50th Anniversary. Many of our Nation's business success stories (e.g. Intel, FedEx, Ben & Jerry's, etc.) were built on the foundation of varying forms of SBA assistance (e.g. capital access, technical assistance, procurement assistance and disaster relief). In its continuing effort to transform itself into a more efficient and effective organization the Agency will be guided by The President's Management Agenda, which includes the following:

- Strategic Management of Human Capital
  SBA will restructure its workforce to adapt to the changing needs of small businesses and the marketplace, reducing layers of management where necessary and relying upon private partners where appropriate.

- Competitive Sourcing
  SBA will continue to identify and outsource, as warranted, those activities that are not inherently governmental in nature.

- Improved Financial Performance
  SBA will build upon its sound financial management system through modernization and the integration of its Loan Monitoring System.

- Expanded Electronic Government
  SBA will play a leading role in the government-wide initiative to offer electronic services to citizens and small businesses.

- Budget and Performance Integration
  SBA will continue to become more transparent and accountable by focusing on results and managing its resources accordingly.

While The President's Management Agenda will provide guidance, SBA's mission emanates from the Small Business Act , which charges the Agency to:

> *"...aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government...be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."*

SBA's Mission and Strategic Framework

A more vibrant small business sector is the product of the strategic implementation of the SBA mission and is of critical importance to our national economic growth and health. In pursuit of this mission, SBA will pursue three major strategic goals:

1. Champion Small Business Interests
2. Empower Entrepreneurs
3. Streamline Disaster Lending

Strategic Goal 1: Champion Small Business Interests

Small business is the foundation that supports the Nation's productive capacity, stimulates innovation, and creates jobs. The SBA's success rests upon its ability to stimulate economic growth while breaking down the barriers to free competition. The SBA commits to listen to small business concerns and the message from its varied partners through small business trade association conferences and roundtables, through local, county, and state conferences as well as statewide economic development summits. SBA will act on behalf of small business needs and interests and serve as a powerful voice in the policy arena. One of SBA's objectives is to reduce the onerous legal and regulatory burden that impacts the country's small businesses. The Agency will continue to pursue and support legislation and regulations conducive to equity and fairness and a strong small business community, including issues such as access to capital, contract opportunities, entrepreneurial development, pension reform, tax reduction, and health care.

Strategic Goal 2: Empower Entrepreneurs

Americans are the world's most prolific entrepreneurs. However, much of this productive talent lies dormant without tools such as capital, technical assistance, counseling, a solid business framework, and a workable business plan. Together with its resource partners, SBA will continue to provide these tools through a full range of responsive programs for small businesses to start and expand. SBA will leverage the resources of each partner to create a synergistic approach to increasing capital access and to encouraging more business start-ups to help expand the business playing field.

Strategic Goal 3: Streamline Disaster Lending

SBA has long been a major provider of disaster relief in the form of access to capital. The September 11th attacks have heightened SBA's awareness of the need to continue to act in a more creative, responsive, and efficient way. These tragic events challenged SBA to evaluate its ability not only to provide assistance within a defined geographical region, but also to respond to the widespread adverse economic impact to this country's small business community. SBA met this challenge not only by working through its resource partners (including the Small Business Development Centers, SCORE and Women's Business Centers) to provide New York with additional disaster assistance in less than 72 hours, but also through an unprecedented nationwide expansion of its Economic Injury Disaster Loan (EIDL) program. SBA will continue to innovate by providing an electronic loan application process, streamlining the credit review process, and expediting loan processing.

Managing for Results

Realizing the importance of transparency and accountability for its results, SBA will deploy its resources in a way that increases its impact on the small business community. SBA will not simply count the activities that it undertakes; it will measure and monitor those program outputs (i.e., the intermediate product of the Agency's activities) that have demonstrable connections to service outcomes (i.e., the final impact that citizens and small businesses seek). The graphic on page six illustrates this connection between program results (i.e., outputs) and performance goals (i.e., outcomes).

This illustration depicts a general production process whereby the results of the Agency's activities lead to the achievement of the Agency's goals for small business. The Agency first sets its performance goals by identifying the desired impact it seeks to have on small business. It then identifies the managerial outputs (i.e., results) that lead to the desired service impacts. The required output levels determine the activity the Agency must undertake to achieve its goals. For example, in our logic model, based on available data, every $33,000 in loans to small businesses leads to one job created. With this information, we can reasonably extrapolate the number of jobs created (our performance goal) from our loan dollar volume disbursed (the program result).

While it is difficult to infer direct causal links between SBA program results and performance outcomes, taken in the aggregate, SBA activities can indeed be shown to contribute to the success of small business. This is done, in part by conducting surveys that validate program impacts and charting how business sustainability and job creation relate directly to the availability of capital, credit and procurement opportunities.

STRATEGIES AND MEANS FOR ACHIEVING PERFORMANCE GOALS

SBA PROGRAM OUTPUTS CONTRIBUTE TO THESE PERFORMANCE GOALS

Strategic Goal 1: Champion small business interests through being a voice for small business.

Small business advocacy
Small business research
Regulatory impact analyses
State conferences and roundtables
Ombudsman hearings
Federal regulatory reviews
Electronic information and assistance

Strategic Goal 2: Empower entrepreneurs through access to capital and credit, procurement opportunities and entrepreneurial development assistance.

Business loans
Equity financings
Surety bond guarantees
Export credit
Certification of small disadvantaged businesses
Certification and development of 8(a) firms
Federal small business procurement
SBIR grants
Education
Counseling
Training

Impacts On Small Business

Regulatory savings
Reduced legal and regulatory burden
Increased regulatory enforcement fairness
Strengthened small business sector
Increased customer satisfaction
Increased small business jobs
Increased small business ownership diversity and growth in economically distressed areas
Increased number of start-ups
Increased client firm survival rates
Increased share of Federal procurement to small businesses and targeted groups
Increased small business export sales
Improved 8(a) firms success rate
Increased commercialization rate of SBIR projects

Strategic Goal 3: Streamline disaster lending.

Disaster loans to families
Disaster loans to businesses
Timely response
Reduced application & approval time

Restored housing & businesses
Jobs retained
Increased survival of businesses
Stabilized local economy and community
Customer satisfaction

The Performance Scorecard shown below maps the Agency's performance indicators to its strategic goals, summarizes its progress made over the past 3 years, and presents the goals for the current and subsequent fiscal years. SBA pledges to identify innovative and cost effective solutions to improve its service delivery. The President's Management Agenda will serve as the primary guide in this improvement process, with a greater emphasis on expanding Internet applications, outsourcing service delivery, modernizing loan monitoring, and further integrating budget allocation and performance.

SBA's STRATEGIC GOALS AND PERFORMANCE INDICATORS

Description	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Strategic Goal 1: Champion Small Business Interests					
1. Regulatory cost savings to small businesses	$4.3B	$3.6B	$4.4B	$3.5B[1]	$3.0B
Strategic Goal 2: Empower Entrepreneurs					
2. Start-ups receiving 7(a) and 504 financing	16,120	16,630	14,283	16,194	15,480
3. Start-ups receiving 7(a) and 504 loans viable 3 years after receiving loan	69%	69%	69%	70%	71%
4. 7(a) and 504 loans that go to minority-owed firms	12,127	12,120	12,009	12,009	12,900
5. Export sales through SBA assistance	$349M	$675M	$608M	$537M	$550M
6. 8(a) firms viable 3 years after graduation	68%	65%	TBD	70%	70%
7. Jobs created by 7(a) and 504 borrowers	373,143	379,481	374,441	408,172	302,720
8. Jobs created/sustained by SBIC clients	120,000	160,000	120,000	148,571	142,857
9. Jobs created by SBDC clients	70,398	60,395	N/A	50,000	52,500
Federal prime contract dollars: [2]					
10. To small businesses	23.1%	22.3%	22.0%	23.0%	23.0%
11. To women-owned firms	2.3%	2.3%	2.0%	5.0%	5.0%
12. To small disadvantaged-owned firms	6.5%	6.5%	6.0%	5.0%	5.0%
13. To service disabled veteran-owned firms	N/A	N/A	0.1%	3.0%	3.0%
14. To HUBZone-certified firms	N/A	0.3%	0.5%	2.5%	3.0%
Strategic Goal 3: Streamline Disaster Lending					
15. Homes restored to pre-disaster conditions	28,811	23,070	43,519	31,853	30,618
16. Businesses restored to pre-disaster conditions	7,365	5,148	5,275	7,011	6,116
17. SBA field presence within 3 days	100%	100%	100%	98%	100%
18. Loan applications processed within 21 days	60%	91%	94%	80%	85%
19. Customer satisfaction	N/A	81%	N/A	80%	80%

[1] The decline in savings suggests success on the part of the Office of Advocacy because it is operating on a smaller and smaller regulatory universe.
[2] Year-end data for FY 2001 are not yet available. Actual figures are estimates.

HIGHLIGHTS

The President's FY 2003 Budget request for SBA encourages entrepreneurial activity and growth while providing improved customer service and savings to the taxpayer. Combining $35 million from anticipated carryover balances and recoveries in the Disaster Loan Programs account with a budget request of $798 million, which includes $18 million for pension benefits previously funded through OPM, SBA will be able to offer more than $17 billion in capital and credit assistance to small businesses and to disaster victims. This budget request also includes funds to provide management and technical assistance as well as procurement support to the small business community. Finally, the FY 2003 budget request includes funding to implement the President's core management initiatives to create an SBA that is citizen-centered, market-based, and results-oriented.

Presidential Initiatives

The President's FY 2003 Budget request contains several specific program initiatives that represent his agenda for small business.

- To complement the celebration of SBA's 50th Anniversary in FY 2003 and to solicit small business input into the Agency's policy and program agenda, the Administration is proposing to initiate a series of conferences that will culminate in a national celebration of small business. SBA has requested $1.5 million in funding to support involvement with these events starting in FY 2003.

- To support one of the President's 23 E-Government initiatives to create a Government that is more citizen-centered, SBA is requesting $5 million to lead the Federal Government's interagency effort to build a portal that reduces the burden of laws and regulations on small business. This Business Compliance One-Stop on the Internet will build upon SBA's *BusinessLaw.gov* and help small entrepreneurs find, understand, and comply with Federal, state, and local laws and regulations. The new tool will also offer access to online licensing and permitting.

- To specifically address the small business needs of Native Americans, especially those living on reservations, SBA is requesting $1 million to encourage and train entrepreneurs to start, grow and expand small businesses within these communities. This will support the stimulation of these local economies through job creation.

- To link resources more closely to results, SBA is requesting $850,000 to evaluate its program services to ensure they are meeting the needs of small business customers and that these services are being delivered in the most cost effective and efficient manner. With the continuing emphasis on tying resources to results under the Government Performance and Results Act, SBA must ensure that its key delivery programs, especially those that rely on private-sector partnerships, produce value for the taxpayer.

- To restructure its workforce and ensure competitive sourcing, SBA is requesting $15 million. In FY 2002 SBA will further refine its 5-year modernization plan and initiate selected pilot projects to test and quantify the costs and benefits of various programs to improve delivery of services to its customers. This will position SBA to make the necessary changes to its programs and delivery network. In FY 2003 SBA will implement the successes of the pilot program. The $15 million will fund costs including expansion of telecommuting, consolidation of loan servicing centers, relocating and retraining employees, and reconfiguration and reduction of office space. These expenditures will result in significant cost savings in the out years.

- SBA is requesting $3.55 million to upgrade its infrastructure in support of all of its programs and services and to ensure increased security over Federal computer systems. Included in this request is $750,000 to implement an e-documents management system to retain and administer SBA's electronic records and $2.8 million to increase system security and improve the infrastructure.

Additional Proposals

- **Budget authority of $85.36 million for 7(a) loan program.**

  The SBA has changed its subsidy rate calculation method for the 7(a) loan program to more accurately reflect changes in the program over time. The new calculation method, which weights Preferred Lender loans in proportion to participation in the program, produced a subsidy rate estimate of .88 percent - a 20 percent decrease. However, P.L. 107-100 subsequently reduced the fees paid by borrowers and lenders for a two-year period beginning in October 2002, causing the recently reduced subsidy rate to double to 1.76 percent. With the requested appropriation of $85.36 million for FY 2003, this results in a 7(a) program level of $4.85 billion in lending.

  While this statutory change ostensibly poses a significant challenge to SBA in meeting increasing loan demand, SBA believes that other recent legislation may help it meet this challenge. The combined budget authority for the 7(a) program in FY 2002 is $175 million, which includes SBA's annual appropriation of $78 million, the supplemental appropriation of $75 million, and carryover from FY 2001 of $22 million. While the supplemental 7(a) program is executed at a different subsidy rate than the regular program (1.67 percent versus 1.07 percent, respectively), the total 7(a) loan volume for FY 2002 equates to $13.84 billion. Adding this amount to the FY 2003 program level of $4.85 billion produces a two-year program level of $18.69 billion, or an annual average of $9.34 billion, which is consistent with historical levels.

  Consistent with its strategic goal of empowering entrepreneurs, SBA believes that 7(a) resources can be strategically targeted to serve those small businesses that have the greatest

need. SBA will explore creative adaptations to make the 7(a) program more efficient and effective. Some adaptations SBA is considering include the increased use of the 504 program to finance larger loans for real estate and long term capital equipment investment, targeting smaller loans, and leveraging resources through the support of state-based Capital Access Programs (CAP).

- **Save taxpayers $37 million by eliminating redundant and duplicative programs.**

  SBA is not seeking funding in FY 2003 for the Program for Investment in Microenterprise (PRIME), funded in FY 2002 at $5 million; the Business Learning-Investment-Networking and Collaboration (BusinessLINC) program, funded in FY 2002 at $2 million and congressional initiates funded in FY 2002 at $30 million. These changes will free $37 million allowing SBA to focus on providing a greater level of service through its proven core programs. SBA services will be improved through the elimination of programs that duplicate other Federal, state, local or private-sector services to small business.

In summary, SBA's request of $798 million represents a responsible and responsive funding level to appropriately serve the needs of America's small businesses in FY 2003. This budget builds on the President's tax proposal and other policies to revitalize the economy, invest in human capital, increase customer satisfaction through expanded electronic tools, and increase government transparency and accountability. This is what the President demands and small business deserves.

FY 2003 PERFORMANCE PLAN

Strategic Goal 1: Champion Small Business Interests

Means and Strategies:

SBA has three major strategies to champion small business interests. First, SBA is a voice for small business, reaching out to small businesses to ask what they need and want. The Agency raises small business concerns to the highest levels of Government, and acts as an advocate in the legislative and regulatory areas to break down barriers to small business success. SBA speaks out on issues of major concern to small business, e.g., pension reform, tax reduction, health care, legal and regulatory redress, and barriers to international trade.

Second, SBA encourages Federal agencies to treat small businesses equitably and fairly. Examples include the National Ombudsman's efforts to make Federal agencies consider the impact of their regulatory enforcement and compliance processes on small businesses.

Third, SBA is committed to serving the needs of the Nation's 25 million small businesses by providing information, program services/transactions, and knowledge through the Internet. With more than 2 out of 3 small business owners using the Internet, SBA is expanding its 24/7 access through Internet tools that are solution-driven.

Results and Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Results:						
Regulatory cost savings to small businesses	$3.2B	$4.3B	$3.6B	$4.4B	$3.5B	$3.0B
Resources ($000):						
Office of Advocacy	$ 4,079	$ 4,334	$ 4,480	$ 4,146	$ 4,920	$ 5,642
Advocacy Database & Research	790	800	1,140	1,297	1,100	1,100
National Ombudsman	351	524	514	554	500	500
Business Compliance 1-stop portal	0	0	0	0	200	5,000
Evaluations	0	0	0	90	0	850
White House/ State Conferences	0	0	0	0	0	1,500
Agency Support Cost Estimates	N/A	N/A	2,289	2,396	2,789	2,545
Total	$ 5,220	$ 5,658	$8,423	$ 8,803	$ 9,509	$ 17,137

Major Accomplishments in FY 2001:

- Legislative Changes. SBA's Office of Advocacy estimates it saved small businesses $4.4 billion through its legislative and regulatory agenda. Activities that resulted in savings came from collaboration with the Departments of Labor and Interior, EPA, and OSHA.

- Regulatory Fairness. The National Ombudsman solicited comments from small business concerns regarding the regulatory enforcement practices used by Federal agencies. Information was used to provide feedback to Federal regulatory agency's on improving the enforcement and compliance environment.

Major Activities for FY 2003:

- Impact Studies. SBA will continue to reduce the regulatory burden to small business encouraging agencies to analyze the impact of proposed regulations on small businesses before they are published and review and comment on proposed rules as they move through the Regulatory Flexibility Act and Administrative Procedures Act processes.

- Economic Research. SBA will continue to research the impact on small business of emerging issues such as a tight labor market, barriers to small companies providing health insurance, anti-competitive Internet practices, cyber-crime, the overall cost of regulations, small business growth patterns, and pension reforms.

- Analyze and Propose Legislative Changes. SBA will continue to analyze and advocate legislative initiatives from a small business perspective.

- White House and State Conferences. To serve small business well, SBA must listen to small business concerns. The recognition activities of SBA's conferences will increase the awareness of small business needs and encourage discussions on how to best improve assistance to small business in carrying out its role as the Nation's top job creator.

- Regulatory Fairness. SBA's National Ombudsman and the Federal Regional Regulatory Fairness Boards will convene hearings and roundtables throughout the country. The National Ombudsman will solicit testimony from small business concerns regarding the regulatory enforcement practices used by Federal agencies. Feedback from these hearings will be posted on the Ombudsman website and used to rate Federal agencies on their small business enforcement practices. Information will also be used to make the Federal regulatory enforcement and compliance environment more small business friendly.

- Business Compliance One-Stop. The primary goal in developing this Internet portal (*BusinessLaw.gov*) is to continue to help small businesses find, understand, and comply with laws and regulations. To avoid significant costs in time and penalties, the small business owner must figure out which laws and regulations apply to his/her business, understand what is required, and then act. It is a tedious and often costly task, complicated in part because the rules are imposed by numerous agencies at all levels of Government: Federal, state and local. The first phase of this portal was unveiled in December 2001. The second phase, is a multi-agency, intergovernmental effort managed by SBA as part of the Administration's QuickSilver E-Gov initiatives to create a client-centered government. These initiatives will enable small business to secure licenses and permits over the Internet.

- Public/Private Partnerships. The primary goal is to increase the leverage of SBA's programs and resources by acting as a catalyst and coordinator to promote public/private partnerships. Partners include Federal agencies, state, county, and local governments, financial institutions, large corporations, educational institutions, non-profit organizations, and business trade associations.

Cross-Cutting Issues:

Serving as a voice for small business, reviewing agency regulatory proposals for small business impact, and serving as the guardian for regulatory fairness require close collaboration with major Federal regulatory agencies. In all, the Office of Advocacy monitors the regulatory proposals of Federal agencies, as well as administration policies and congressional initiatives that effect small business.

The Office of the National Ombudsman, by statute, works with the 34 Federal Regulatory agencies covered under SBREFA to effect changes in Federal regulatory compliance and enforcement processes to reduce their negative impact on small businesses.

Critical External Factors:

Critical success factors for the Office of the National Ombudsman are successful integration into SBA field functions, active participation by the 50 Board members, more effective use of the Internet, and partnering with regulatory agencies. Other critical success factors for championing the interests of small business include developing productive public-private sector partnerships and a good collaborative relationship with trade associations.

Strategic Goal 2: Empower Entrepreneurs

Means and Strategies:

The SBA sponsors a number of programs that provide services directly to clients. The overarching goals for these programs empower entrepreneurs and help small business clients become viable in a competitive marketplace.

SBA has something to offer to *all* small businesses but seeks especially to reach those that need help the most. Major impediments to small business success include inadequate access to financing, limited management and technical assistance, lack of procurement assistance and certification and development assistance. SBA programs provide access to loans and equity; contract and procurement assistance; and counseling, education, information, and training. The outcomes of these programs are job creation, revenue generation, business longevity and contracting. The SBA accomplishes these goals through three principal program areas: Capital and Credit, Procurement, and Entrepreneurial Development.

I. Programs that support small business capital and credit needs:

Small businesses cite inadequate access to capital and credit on reasonable terms as a serious impediment to start-up and growth. One of SBA's objectives is to expand the parameters within which a conventional lender can make a small business loan. As the Nation's preeminent "gap lender" for small business, SBA identifies and helps to fill the credit gap in the commercial marketplace. SBA guarantees funding for: longer terms; new start-up businesses in emerging industries; businesses with lower levels of collateral; and businesses with limited track records, all of which are credit-worthy but not readily served in the conventional credit marketplace.

One way that SBA measures the performance of these programs is by tracking the number of start-ups financed that survive for three years, and the growth of firms measured by job creation that have obtained SBA debt or equity financing.

SBA delivers financial assistance programs through a network of field offices and lending partners, who work with small businesses on a one-to-one basis. SBA also processes many of its loans through centralized processing centers located in Sacramento, California and Hazard, Kentucky, relying on its lending partners for credit decisions.

SBA products currently include:

- General Business 7(a) Loan Guaranty Program. SBA guarantees small business loans of up to $1 million (with a maximum loan size of $2 million) for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of $150,000 or less and 75 percent on loans of more than $150,000. Borrowers may have more than one SBA loan at a time, as long as the total amount guaranteed does not exceed the SBA's guaranty cap of $1 million. The only

exceptions to these limits are for loans approved under the Export Working Capital Program (which receive a guaranty of up to 90 percent), and the Defense Loan and Technical Assistance (DELTA) Loan Program.

- 504 Certified Development Company (CDC) Loans. This program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. SBA fully guarantees (at 100 percent) debentures issued by the CDC for up to 40 percent of the project cost not to exceed $1.0 million or $1.3 million for projects that meet specific public policy purposes. The remaining 60 percent is provided by borrower injection (10-20 percent) and private capital sources.

- Microloans. These loans provide capital to small businesses that traditional lenders historically have not served. SBA makes loans up to $750,000 to intermediaries who in turn make very small loans ($35,000 and under) available to entrepreneurs traditionally considered unbankable because of inexperience with credit, lack of assets, or the need for technical assistance. A key component of the Microloan program is the intermediary's ability to provide technical assistance to the micro-business, through SBA grants.

- United States Export Assistance Centers (USEACs). SBA, the Department of Commerce, the Ex-Im Bank and the U.S. Department of Agriculture jointly staff these one-stop trade promotion and export finance assistance centers located in 19 cities across the country.

- Small Business Investment Company (SBIC) Program. SBICs serve one of the most important missions of the Agency- helping qualified small enterprises secure equity to start, maintain or grow a business. The SBIC program facilitates the formation of privately-owned and operated investment companies as sources of equity capital and long-term debt financing to new or expanding small businesses; and supplementing investment companies' private capital with funds made available through SBA guarantees. SBICs are licensed and regulated by the SBA. SBICs use their own funds, plus funds from borrowing with an SBA guaranty, referred to as "leverage," to make venture capital investments in small business. The entire private capital of an SBIC is placed at risk ahead of the funding guaranteed by the SBA.

- New Market Venture Capital (NMVC) Program. This program provides equity-type capital and operational assistance funds to small businesses located in defined low-income areas. The program is modeled on the SBIC program but also includes grant awards to the NMVC companies to allow for more intensive technical assistance.

- Surety Bond Guarantee Program. This program issues bid, payment and performance bond guarantees to surety companies for construction, service and supply contracts that do not exceed $2 million. SBA's guarantees provide sureties necessary incentives to issue bonds to small contractors who could not otherwise compete in the contracting industry.

Results and Resources

(Dollars in thousands based on net loan approvals[1])

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Results:						
Start-up firms obtaining 7(a) and 504 financing	16,640	16,120	16,630	14,283	16,194	15,480
Start-up firms with 7(a) and 504 financing surviving three years[2]	70%	69%	69%	69%	70%	71%
Export sales through financing & other SBA assistance	$413,000	$349,000	$675,000	$608,000[3]	$537,000	$550,000
Jobs created by SBA 7(a) borrowers[4]	278,426	313, 322	324,964	305,509	324,254	203,817
Jobs created by SBA 504 borrowers	53,288	59,821	54,517	68,932	83,918	98,903
Jobs created/sustained by SBIC	91,429	120,000	160,000	120,000	148,571	142,857
Outputs:						
Number of 7(a) loans approved	42,270	43,636	43,748	42,958	47,500[5]	44,000[6]
Number of 504 loans (gross)	4,930	5,284	4,565	5,213	6,480	7,600
Dollar volume of 7(a) loans (net)	$8.5B	$9.5B	$9.7B	$9.1B	$10.5B	$6.8B
Dollar volume of 504 loans (net)	$1.8B	$2.0B	$1.8B	$2.3B	$2.8B	$3.3B
Number of 7(a) & 504 loans to women	11,108	10,244	9,921	9,969	12,457	12,500
Number of 7(a) & 504 loans to veterans	5,915	5,477	5,215	5,099	5,099	5,676
Number of 7(a) & 504 loans to minorities	10,897	12,127	12,120	12,009	12,009	12,900
Number of 7(a) and 504 loans to start-ups	16,640	16,120	14,450	14,283	16,194	15,480
SBIC financing to start-ups	1,456	1,169	2,180	1,700	1,800	1,800
Dollars of 7(a) and 504 loans to start-ups	N/A	N/A	N/A	$2.9B	$3.3B	$2.5B
Dollars of SBIC financing to start-ups	$1.6B	$1.8B	$2.7B	$2.0B	$2.1B	$2.3B
Number of 7(a) loans below $150,000	26,002	26,464	26,227	27,107	25,900	28,000
Dollars of 7(a) loans below $150,000	$1.8B	$1.9B	$1.9B	$2.0B	$2.0B	$2.1B
Number of Microloans	1,091	1,434	2,107	2,295	2,200	2,200
Number of Surety Bonds Guaranteed	13,305	9,399	7,034	6,320	6,300	7,000
Number of export loans	431	429	480	425	420	450
Resources ($000):						
Capital Access Operating Expenses	$ 19,002	$ 20,943	$ 24,391	$25,395	$25,276	$27,104
Special Initiatives						
USEAC	2,831	3,100	3,065	2,579	3,100	3,100
Microloan Technical Assistance	14,094	19,148	19,243	18,385	17,754	17,500
PRIME Technical Assistance	0	0	0	15,000	5,000	0
New Market Venture Capital Technical Asst.	0	0	0	120	29,880	0

[1] Each year approximately 10 percent of the loan dollars approved are canceled prior to disbursement, freeing the funds for another borrowers. Therefore, net loan approvals are approximately 10 percent lower than gross approvals.

[2] Measure defined as the percentage of disbursed loans to startups that are current or paid in full at the end of three fiscal years later.

[3] Not reflected here is an additional $904 million in export sales supported through SBA's non-finance programs.

[4] Job creation figures for 7(a) and 504 loans are based on the SBDC annual economic impact study, which revealed that 30 percent of loans that SBDC clients obtain made in FY 1999 and FY 200 are SBA general business loans. The job coefficient for the 7(a) loans was $32,382, meaning that this amount in lending leads to one job, on average. The job coefficient for the 504 loans was $33,366 (based on 1998-2000 data). Job estimates were obtained by dividing gross original loan dollars by the coefficient. Job creation figures for SBIC are based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999), which estimates a job creation constant of one job for every $35,000 invested in 1999.

[5] This figure includes an estimated 43,000 loan approvals from the regular 7(a) program and an additional 4,500 from the temporary authority provided by P.L. 107-117 to help small businesses following the September 11th attacks. The total is based on an estimate of $10.5B in lending and the FY 2001 average loan level of $242,000.

[6] This figure is based on the requested lending level of $4.85B plus an expected carryover of budget authority that could provide $2 billion in additional lending. The carryover is likely due to our aggressive FY 2002 projection of $10.5 billion in lending falling short of a total available program level of $13.8 billion. This figure also assumes an average loan size of $172,000, which we will attain through proposed smaller loan size initiatives.

U.S. Small Business Administration
FY 2003 Budget Request and Performance Plan

PERFORMANCE PLAN FOR FY 2003 – Strategic Goal 2: Empower Entrepreneurs

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Loan Subsidies						
7(a) General Business	182,435	131,648	112,283	106,724	175,075	85,360
7(a) DELTA	1,037	762	285	32	346	302
Y2K	0	170	110	1	0	0
504 CDC	0	0	0	0	0	0
504 DELTA	38	43	3	0	21	22
New Market Venture Capital	0	0	0	0	21,952	0
SBIC Participating Securities	15,471	22,232	22,692	27,624	0	0
SBIC Debentures	8,955	4,858	0	0	0	0
Microloan Guaranty	298	92	96	159	163	168
Microloan Direct	1,111	1,369	2,323	2,668	1,730	3,465
Agency Program Support Cost Estimates	N/A	N/A	117,658	168,428	214,721	$193,408
Total	**$245,272**	**$204,365**	**$302,149**	**$367,115**	**$420,018**	**$330,429**

Major Accomplishments in FY 2001:

Loan and equity programs

- 7(a) and CDC Loans. Approved 42,958 general business loans for approximately $9.1 billion and 5,213 Certified Development Company loans for $2.3 billion.

- Asset Sales. Continued the Agency's asset sales program by holding a third and fourth sale to the private sector in December 2000 and August 2001 of 18,756 and 31,068 loans. SBA realized $674 million and $884 million, respectively in gross revenues from these sales.

- SBICs. Licensed 51 new SBICs with private capital of $1.1 billion. Provided $4.46 billion in equity investment through 4,277 small business financings, of which 12 percent went to companies owned at least 50 percent by minorities and 4 percent was to companies owned at least 50 percent by women; conducted exams on a cycle of 10.9 months for leveraged SBICs.

- Surety Bonds. Provided 6,320 bid and final bond guarantees, resulting in contracts valued at $1.4 billion. Expanded oversight of the Surety Bond Program by completing 6 surety audits, 7 surety reviews and one area office review.

- Microloans. Approved 16 new Microloan intermediary lenders and approved 2,295 loans for $31.8 million to new and existing microenterprises.

- Technical Assistance. Provided $ 15 million in technical assistance grants to 86 PRIME program recipients.

- Export Loans. Provided 425 export loans worth an estimated $167 million.

Major Activities for FY 2003:

- Lender Oversight. Improve lender oversight and portfolio analysis by using a risk management framework to analyze the performance and risk characteristics of individual lenders. SBA loan

portfolio elements of the framework include evaluation of portfolio and financial performance measures, geographic and industry concentrations, growth rates, and related market trends. These objectives will be accomplished by: (1) implementing and refining the basic lender oversight and risk management components of the loan monitoring system (LMS); (2) expanding loan portfolio analysis activities; (3) continuing institutional analysis of individual SBA lenders using early warning indicators; (4) expanding the compliance review process to include operational or regulatory reviews of lenders' SBA activity; and (5) conducting safety and soundness reviews of non-bank lenders.

- 7(a). Develop creative adaptations to the program to make it more efficient and effective, enabling SBA to reach more small business clients.

- E-Lending. Anticipate the development of an online self-assessment tool to help a potential borrower understand what is required to qualify for an SBA guaranty.

- Relationship Management. Complete implementation of a new district-based lender program to streamline and improve interactions with SBA's key 7(a) lending partners, such as providing training and information on SBA loan products and procedures.

- Asset Sales. Continue the Asset Sales program with plans to hold 2 to 3 sales in FY 2003.

- Partnerships. Expand partnership alliances to provide lending and advisory services to veterans, Native Americans, women, other entrepreneurs and small business non-governmental organizations (NGOs).

- Surety Bonds. Increase contractor and surety participation and raise the total number of surety bonds issued for small businesses.

- Certified Development Company (CDC) Reform. SBA will make the necessary changes to increase the use of this program for plant and equipment capital investments.

- Microloan Program. Increase the number of intermediaries.

- USEAC. Increase export sales and the number of first time small exporters.

Human Capital:

Over the past several years, technological advancement has greatly changed not only the small business environment but also the SBA environment. For SBA employees, one of the major changes has been to move from transaction processing to analysis, marketing and outreach. Automation and privatization of loan functions allow staff to shift attention from "retail" transaction processing to outreach, marketing, and analysis of programs, activities, and performance of SBA's partners.

SBA will provide training for employees in marketing and outreach, commercial credit analysis, lender oversight, lender relations, and basic and advanced liquidation procedures. The Agency will encourage leadership training and management training for middle management employees. SBA will also promote technology and computer skills enhancement as it continues to upgrade its systems.

Through its workforce restructuring initiative pilot SBA will also implement means to identify where the field resources can add value such as with lender and customer relationship management, resource partner oversight, and more effective use of technology to allow for telecommuting and distance training for SBA's staff and resource partners, and reduction in rent costs.

Evaluations, Analyses and Surveys:

Developing an econometric demand model for the 7(a) loan program is an objective of the risk management aspect of SBA's loan monitoring system. In FY 2000, a contract was awarded to: 1) carry out a literature survey of existing models and experience in estimating demand for loans; 2) suggest an approach to estimate demand; and 3) determine data availability for the suggested demand model. The contractor found that there was little literature and experience with estimating the demand for guaranteed loans, but that a step-wise approach using successively more sophisticated econometric models would provide insight into the demand for 7(a) loans.

For FY 2002 the agency has contracted with the Office of Federal Housing and Enterprise Development to develop an econometric model by FY 2004 to assist the Agency in predicting loan portfolio performance for 7(a) under a variety of economic scenarios.

Cross-Cutting Issues:

SBA is working with the United States Department of Agriculture, the National Federation of Community Development Credit Unions, state and local development agencies, and other groups interested in the Agency's programs.

In the international marketplace, 19 agencies under the Commerce-directed Trade Promotion Coordinating Committee (TPCC) offer both financial and business development assistance to small exporters. SBA meets regularly with these groups to discuss challenges, propose program initiatives, work on developing new products, and avoid duplication of effort in relation to meeting small business needs.

The U.S. Export Assistance Center (USEAC) network is a good example of Federal government interagency crosscutting. From its inception, this network of offices, comprised primarily of personnel from SBA, DOC and Ex-Im Bank, have been cross-trained in each other's programs for more seamless delivery of export assistance to small businesses. SBA/USEAC personnel deliver SBA's Export Trade Assistance Partnership (E-TAP) program to small businesses interested in

getting into exporting. A similar program called Global Diversity Initiative (GDI) is offered by DOC but focuses solely on minority companies. USEAC personnel from SBA and DOC frequently combine their efforts locally, offering a combined E-TAP/GDI program to their communities.

The Departments of Defense, Veterans Affairs and Labor and the National Veterans Business Development Corporation are also important partners in helping veteran and service disabled veteran-owned businesses succeed.

Critical External Factors:

Key to SBA's success in providing access to capital and credit is a cooperative working relationship with the various stakeholders, including, but not limited the National Association of Government Guaranteed Lenders (NAGGL), the National Association of Development Companies (NADCO), the National Association of Small Business Investment Companies (NASBIC), and the Association for Enterprise Opportunity.

Although the demographics, terms and conditions, and purposes of the 7(a), 504, Microloan, and SBIC programs vary significantly, economic conditions strongly affect the demand for these products.

Finally, Congressional support of the programs, particularly those elements that require legislative changes, is a critical success factor.

II. Programs that support small business access to procurement:

SBA's statutory mission is to ensure a fair share of Federal procurement goes to small businesses. The Agency is responsible for promoting the use of small businesses in the approximately $200 billion Federal procurement marketplace. SBA's efforts help ensure that Federal agencies comply with statutory requirements to buy a portion of their goods and services from small businesses. SBA, working with Federal agencies, negotiates procurement goals, monitors performance, encourages the use of small business sources, and provides procurement training and technical assistance to small firms. Based on FY 2000 data, agencies are awarding approximately 38 percent of Federal procurement prime and subcontract dollars to small businesses. In addition, SBA certifies the small businesses' eligibility for procurement preference programs.

SBA's strategy to improve small business access to procurement opportunities has four key elements:

- Increase the number of opportunities for small businesses to perform Federal contracts at the prime and subcontract levels;
- Increase the economic viability of small and small disadvantaged businesses by providing contract opportunities and other business development assistance to those firms who qualify;
- Promote the economic development of HUBZones, and increase the economic viability of small businesses located in them; and

- Facilitate commercialization of Federal research and development performed by small businesses.

SBA's programs currently include:

- PRO-Net. The Procurement Marketing and Access Network, PRO-Net, is one of SBA's key tools in ensuring that small businesses participate fully in the Federal market for goods and services. In accordance with statutory and regulatory requirements, PRO-Net is the authoritative database of firms certified under the 8(a) Business Development and HUBZone Empowerment Contracting Programs, and as small disadvantaged businesses. The Federal acquisition community, state and local governments, and prime contractors use PRO-Net in identifying small business vendors.

- Prime Contracting Program. Through the Prime Contracting Program, SBA works with Federal agencies to increase small business opportunities in the Federal acquisition process by reviewing their acquisition plans and making appropriate recommendations to set aside opportunities for small businesses. SBA provides small business sources to acquisition officials and counsels small businesses on how to sell to the Federal Government.

- Subcontracting Program. Under the Subcontracting Program, SBA works with the Federal Government's large prime contractors to ensure that small businesses receive a fair share of subcontracting opportunities. SBA accomplishes this by reviewing the subcontracting plans of large prime contractors and by bringing together large and small businesses to facilitate the formation of mutually beneficial private sector relationships.

- Women Business Owners' Program. The Federal Contract Assistance for Women Business Owners' Program encourages Federal agencies to develop long-term comprehensive strategies that expand opportunities for women-owned small businesses in order to meet the 5 percent women-owned small business goal.

- Natural Resources Sales Assistance Program. The purpose of the Natural Resources Sales Assistance Program is to aid and assist small business in obtaining its fair share of Federal property offered for sale or disposal by other means. Within this Government-wide program, our efforts have concentrated on Federal timber, royalty oil, coal leases, other mineral leases, and Federal surplus property.

- Certificate of Competency Program. The Certificate of Competency Program provides an appeal process to small businesses that have been denied contracts with the U.S. Government for a lack of "responsibility" or a perceived inability to perform satisfactorily.

- Size Standards. SBA develops small business size standards for Federal programs so that small business assistance is provided to its intended beneficiaries.

- HUBZone Empowerment Contracting Program. The HUBZone Empowerment Contracting Program helps small businesses that are located in, and employ residents of, "historically underutilized business zones." The program provides for Federal contract set-asides, sole source awards, and price evaluation preferences in unrestricted procurements for qualified HUBZone small businesses. The government-wide statutory goal for this program is to award 3 percent of the total Federal procurements to such firms in FY 2003. Through this program, SBA seeks to increase employment, promote capital investment, and encourage economic development in these communities. To accomplish this, SBA certifies eligible firms, maintains a database of certified firms, and conducts random and targeted compliance reviews. SBA also uses its procurement assistance professionals to assist these firms in marketing Federal contract opportunities.

- 8(a) Business Development Program. The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act. Assistance includes access to sole source and limited competition Federal contract opportunities. We work with Federal acquisition agencies to develop contract opportunities for program participants, and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

- 7(j) Program. Under the 7(j) Program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals, or companies located in areas of high unemployment, and firms located in areas of low income.

- SBIR and STTR Programs. SBA encourages small business innovation by establishing government-wide policy for the SBIR and STTR Programs. Through award of research and development assistance grants, these programs promote the flow of innovative products and services from small businesses to Federal and commercial markets. Through the FAST Program, SBA will provide matching fund cooperative agreements to state organizations to strengthen the technological competitiveness of small businesses. The Rural Outreach Program provides cooperative agreements to approximately 25 states to increase participation in the SBIR Program.

- Small Disadvantaged Businesses. SBA certifies qualifying companies as Small Disadvantaged Businesses (SDBs). Certification enables eligible companies to obtain certain procurement preferences. This activity has been funded under Economy Act Agreements with the top 20 Federal procuring agencies.

Results and Resources
(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Target	FY 2003 Target
Results						
Share of Federal Prime procurement contracts:						
• To small businesses	23.4%	23.1%	22.3%	23.0%	23.0%	23.0%
• To women-owned businesses	2.2%	2.3%	2.3%	2%	5.0%	5.0%
• To small disadvantaged businesses	6.6%	6.5%	6.5%	6.0%	5.0%	5.0%
• To service disabled veteran-owned businesses	N/A	N/A	N/A	.1%	3.0%	3.0%
• To HUBZone-certified firms	N/A	N/A	0.3%	.5%	2.5%	3.0%
Share of all procurement to Small Firms	N/A	N/A	38%	38%	38%	38%
SBIR commercialization rate		39%[1]	39%	TBD	TBD	TBD
8(a) clients viable and competitive 3 years after graduation	N/A	N/A	65%	68%	70%	70%
Number of 8 (a) firms in program during fiscal year	6,098	5,969	6,383	6,942	6,500	7,500
Cumulative number of HUBZone firms certified	N/A	329	1,843	4,000	6,000	8,000
Number of firms registered in PRO-Net		183,750	204,148	210,000	212,000	212,000
Resources ($000)						
SBIR Outreach	0	0	496	1,500	500	500
SBIR FAST	0	0	0	3,500	3,000	3,000
Government Contracting /Business Development Operating Expenses	$16,601	$18,300	$18,576	$19,926	$20,658	$22,907
Non-Credit Initiatives						
7(j) Technical Assistance	2,850	2,600	3,950	3,241	3,600	3,600
BusinessLINC	0	0	0	6,919	0	0
Pro-Net	232	363	454	450	TBD	500
Small Disadvantaged Business	10,409	9,750	8,643	1,796	1,516	1,500
HUBZone Program	2,000	2,000	1,978	1,791	TBD	2,000
Agency Support Cost Estimates	N/A	N/A	34,228	38,333	40,439	43,341
Total	**$ 32,092**	**$ 33,013**	**$ 68,325**	**$ 77,456**	**$ 69,713**	**$ 77,348**

TBD denotes "to be determined."

Major Accomplishments in FY 2001:

- FAST. Awarded approximately 30 cooperative agreements totaling $3.5 million under the Federal and State Technology Partnership (FAST) Program to provide technical assistance to small high technology business concerns in the states to strengthen their technological competitiveness in the marketplace.

[1] SBA began implementing a new SBIR program reporting system in Spring 2001 that will measure the program's commercialization success. It will establish an initial baseline commercialization rate that may not be comparable to the findings of the 1999 study or previous surveys due to differences in methodology. Under the new system, firms participating in the program will provide information annually on sales and investments associated with their SBIR projects. Commercialization results will not be available until FY 2002 due to time required to acquire the database system resources and inform participating firms about the new reporting process.

- SBIR and STTR Programs. Awarded approximately 25 cooperative agreements totaling $1.5 million under the Rural Outreach Program to support state-wide outreach to small high technology businesses located in States that are underrepresented in awards under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) Programs.

- HUBZone Empowerment Contracting Program. Implemented an enhanced electronic application for HUBZone certification to make on-line processing a reality, to include use of Geo coding mapping, and the HUBZone Contracting Opportunity search engine, which furthers the goal of making the HUBZone Program one of the Federal Government's first virtual/e-commerce programs.

- Government Contracting. Secured the largest small business set-aside in the Federal Government from the U.S. Navy, titled the "Defense Information Systems Network (DISN) Satellite Transmission Services - Global (DSTS-G)."

Major Activities for FY 2003:

- PRO-Net. Integrate PRO-Net into the electronic commerce network by expanding its capabilities and standardizing automated registration.

- 7(j) Management and Technical Assistance Program. Broaden the reach and increase the depth of the 7(j) Management and Technical Assistance Program to help SBA's 8(a) participants become viable firms.

- HUBZone Program. Intensify HUBZone Program outreach to the small business and acquisition communities to ensure broader use of the program as an economic development tool.

- Government Contracting. Develop strategies, including regulatory and statutory changes, to streamline small business procurement programs and ensure a balance between promoting contract efficiency and supporting small business needs.

- Procurement Goals. Continue to work aggressively with Federal agencies by securing commitment to statutory procurement goals (e.g., 23 percent procurement preference goals for Federal prime contracts including 5 percent Small Disadvantaged Business, 5 percent for Women Owned Small Businesses, 3 percent HUBZone, and 3 percent Service Disabled Veteran-Owned Small Businesses) and implementing specific strategies to achieve established procurement goals.

- 8(a) Business Development Program. Continue efforts to restructure the 8(a) Business Development Program by automating and streamlining the 8(a) application.

Evaluations, Analyses, and Surveys:

In FY 2001 SBA began a study of the potential economic development impact of the HUBZone Program in distressed urban and rural communities.

Cross-Cutting Issues:

SBA works with all major Federal Government agencies to ensure that small businesses receive a fair share of Government procurement contracts.

Critical External Factors

SBA helps small businesses succeed by working with other Federal agencies to achieve the desired results. A critical success factor for reaching the procurement targets and the SBIR program target mandated by Congress is the active participation of Federal agencies.

The Administration's management reforms include, among other things, focusing on competitive sourcing and expanding electronic government. Agencies must complete public-private competitions or direct conversions on at least 5 percent of their commercial activities in FY 2002 and 10 percent in FY 2003. The use of small business procurement preference programs will help agencies meet their goals because OMB guidance in Circular A-76 (Performance of Commercial Activities) allows agencies to convert a commercial activity to contract performance without a cost comparison.

As the Federal Government expands the use of electronic government, small businesses must adapt to these changes. SBA, through its resource partners, must continue to provide outreach and training to educate small businesses on the Government's electronic procurement strategy. As of October 1, 2001, agencies were required to publish all procurement opportunities over $25,000 in Federal Business Opportunities (FedBizOpps), the Government-wide single point of entry. FedBizOpps allows sellers and service providers to access and download information through commercial electronic means such as e-mail and other web-based technology, which improves the access of information on Federal procurements. In addition, the Government plans to use the Central Contractor Registration database as the Government-wide single point of vendor registration. SBA is working with the Defense Department to use Pro-Net as the official source to validate information on small businesses.

SBA is also working with an Interagency Acquisition Working Group and OMB's Office of Federal Procurement Policy to assess its small business procurement programs and develop strategies for streamlining the programs. In addition to streamlining our programs, SBA must also find alternative performance measures so that it can better measure the success of its programs. (See Section on Program Evaluation.)

III. Programs that support small business entrepreneurial development needs:

Lack of management and technical assistance is often an impediment to small business success. Therefore, empowering entrepreneurs through counseling, education, training and information is one of SBA's principal objectives. SBA annually assists more than 1.3 million small businesses through a vast network of resource partners. Business development information, education and training are offered at over 1,100 locations nationwide. These include the Online Women's Business Center, SCORE Online, approximately 1,000 Small Business Development Centers (SBDCs), 11,500 Service Corps of Retired Executive (SCORE) volunteers, 78 Business Information Centers (BICs), 16 Tribal Business Information Centers (TBICs), 4 Veterans Business Outreach Centers, and 83 Women's Business Centers (WBC). The Agency is also continuing to create citizen-centered Internet applications that empower small entrepreneurs to easily access government information when and where they want. Based on the American Customer Satisfaction Index, with the Federal Government average being 69, SBA's Women's Business Centers and SCORE and clients rated satisfaction at 75 and 68 respectively in 2001.

- Paul D. Coverdell Drug-Free Workplace Program (DFWP). Funds SBDC's and intermediary organizations to provide financial and technical assistance to assist small businesses in implementing DFWP programs. Examples of services provided by intermediaries include drug free workplace policy development and training, drug testing, Employee Assistance Program services and general drug-free workplace education.

- Women's Business Centers (WBC). Provide grants to non-profit organizations to train and counsel women entrepreneurs. In addition, the Online Women's Business Center offers a 24-hour a day Internet site with information aimed specifically at women entrepreneurs.

- Service Corps of Retired Executives (SCORE). Through a network of 11,500 counselors and 389 chapter locations, SCORE provides counseling and training services to over 375,000 clients annually. E-mail counseling is the fastest growing outreach activity.

- Small Business Development Centers (SBDC). Provide management and technical assistance to small businesses though a network of nearly 1,000 service centers located throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam and American Samoa.

- Business Information Centers (BICs). A network of 78 locations provides entrepreneurs access to computers and other business resource materials. Pre-business and in-business counseling and training are also available at BIC locations using SCORE volunteers.

- National Women's Business Council. Serves as an independent advisor to the President, Congress, and the Interagency Committee on Women's Business Enterprise on issues concerning women in business, and the effectiveness of Federal programs designed to foster women's entrepreneurship.

- Veterans Business Development. Formulates, executes, and promotes policies and programs that help small businesses owned and controlled by veterans and service-disabled veterans. The office also ensures veterans access to capital through marketing and outreach efforts and no less than 3 percent of Federal prime and subcontracts.

Results and Resources
(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Results:						
Jobs created by SBDC clients	53,541	70,398	60,395	N/A	50,000	52,500
Outputs:						
Customer satisfaction rate:						
Women's Business Centers	N/A	N/A	N/A	75	TBD	TBD
BICs	N/A	N/A	93%	88%	90%	90%
SBDC[1]	85%	86%	87%	87%	87%	87%
Veterans Business Opportunity Centers	N/A	85.6%	N/A	N/A	85%	85%
SCORE	N/A	N/A	N/A	68	TBD	TBD
SBDC clients counseled and trained	547,037	595,391	582,598	609,646	627,935	634,215
SCORE clients counseled and trained	354,239	384,854	377,524	387,938	399,576	403,572
BICs clients	108,918	123,527	134,358	142,148	146,412	147,876
TBIC clients	2,815	3,913	3,843	5,385	5,546	0
Women's Business Center clients served	9,000	30,630	45,223	60,767	62,590	63,,216
Veteran Business Opportunity Center clients	N/A	N/A	7,373	8,127	8,300	8,500
Small Business Classroom users (Internet)	N/A	N/A	191,000	200,000	TBD	TBD
Resources ($000):						
Office of Veterans Business Development						
Veterans Business Outreach	371	733	615	0	750	750
Veterans Corporation	N/A	N/A	N/A	4,000	0	0
Office of Entrepreneurial Development	$4,543	$5,296	$6,700	$6,331	$5,669	$5,828
SBDC	71,561	89,817	84,074	85,993	90,010	88,000
Drug Free Workplace	0	0	3,469	3,498	3,000	3,000
SCORE	3,937	3,660	3,471	3,750	5,000	5,000
Business Information Centers	499	700	495	499	500	475
Women's Business Centers	4,292	8,000	8,926	11,989	12,000	12,000
National Women's Business Council	473	600	600	714	750	750
Survey of Women Business Owners	992	750	783	691	694	0
Native American Economic Development	607	0	0	0	0	1,000
Agency Support Cost Estimates:	N/A	N/A	45,953	50,349	49,755	53,067
Total	$89,957	$111,923	$155,086	$166,995	$167,551	$169,278

Major Accomplishments in FY 2001:

- Paul D. Coverdell Drug Free Workplace Program. In FY 2001, SBA awarded funds to 13 intermediaries and 8 SBDCs to help small businesses address the issue of drugs in the workplace.

[1] Customer satisfaction results are based on an independent biennial study conducted by the Association of Small Business Development Centers: "Economic Impact of Small Business Development Counseling Activities in the United States," James Chrisman, Ph.D.

During 2001, SBA estimates that 10,974 small businesses and 16,458 working parents were educated, and approximately 1,701 small businesses set up drug-free workplace programs.

- Women's Business Centers. SBA opened 16 new women's business centers, funded 7 sustainability centers and served 60,767 clients.

- Service Corps of Retired Executives. SCORE conducted 387,938 counseling and training sessions in FY 2001 and continued to expand the number of clients served through e-mail counseling.

- Small Business Development Centers. SBDCs counseled and trained 609,646 clients.

- Business Information Centers. SBA opened ten new BICs and served 142,148 clients.

- Tribal Business Information Centers. SBA's network of 16 TBICs served 5,385 clients.

- Veterans Outreach. SBA provided operating funds to four Veterans Business Outreach Program Centers and entered into MOUs with the Departments of Veterans Affairs and Labor, the Association of Small Business Development Centers (ASBDC) and the Service Corps of Retired Executives (SCORE) to provide improved outreach to the Veteran population.

Major Activities for FY 2003:

- Paul D. Coverdell Drug-Free Workplace Program. SBA's intermediary grantees and SBDC partners educate small businesses on the benefits of a drug-free workplace. They also educate parents that work for small businesses on how to keep their children drug-free and provide financial assistance to small businesses as they set up drug-free workplace programs. Through these resource partners, it is estimated that approximately 1,500 small businesses will implement a drug free workplace program.

- Native American Economic Development Program. As a group, the nearly 2 million Native Americans residing in the United States are the poorest people in this country. The unemployment rate is 70 percent on some reservations and averages 45 percent. Furthermore, there are more than 555 Federally recognized Tribes in the United States. These tribes are extraordinarily diverse in language, culture, and natural resources. Small Business ownership is one of the most important economic tools available to Native Americans.

  Through the Native American Economic Development Program, SBA will fund tribes currently engaged in economic development to help them create businesses and meet specific cultural needs of their individual communities. The Native American Economic Development Program will replace SBA's Tribal Business Information Center (TBIC) program. In FY 2003, SBA will also work with grantees to make culturally sensitive information available 24 hours a day, 7 days a week via the Internet.

- Women's Business Center Program. Providing continuing support to 49 new centers from previous years and 29 sustainability centers from previous years. The level of funding will also allow SBA to make new funding available to five new WBCs. The WBC program will also continue to expand the Online to provide services 24 hours a day 7 days a week.

- Service Corps of Retired Executives (SCORE). To provide increased support for client outreach, systems modernization, web site development, marketing and administrative expenses, SBA will continue to work with SCORE to expand email counseling available to clients at times most convenient to the small business customer.

- Business Information Centers (BICs). To continue to support SBA's network of approximately 80 Business Information Centers. Funding will also allow SBA to open between two and five new BICs in locations with a demonstrated need.

- Small Business Development Center Program. The SBDC program is SBA's largest resource partnership, serving over 600,000 clients each year through counseling and training. SBA provides funding to 58 lead centers, providing services at nearly 1,000 locations throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam and American Samoa. In FY 2003, SBA will continue to encourage SBDCs to provide services to the small business client at times and places most convenient to its customers. SBA will also focus on expanding the training materials that are available via the Internet and work with the SBDC community to provide services more effectively and efficiently.

- Veterans Business Development. SBA will continue to improve agency data collection, enhance coordination of outreach and service delivery activities with the National Veterans Business Development Corporation and other resource partners, and develop a national web and community based Veteran Entrepreneur Training program (NET VET).

Evaluation, Analyses and Surveys:

SBA has contracted with the University of Michigan to conduct customer satisfaction surveys of its program clients. Using the American Customer Satisfaction Index (ACSI), SBA is able to measure customer satisfaction for each program client group over time. The Agency will continue to use customer satisfaction as a useful measurement to evaluate its program outcomes for resource allocations.

SBA conducted a review of the SBDC program. Historically, SBA has been inhibited in its effort to measure its overall effectiveness due to the lack of a system to validate and verify the impact data from the SBDC program. The SBDCs are an important component to the SBA network of partners, receiving 11 percent of SBA's total resources in this budget. While the SBA has conducted a program review of the SBDC network and has found anecdotal evidence that the program addresses local needs, the review recommended that the SBDC network work more as a network rather than as separate state organizations, increase the use of Internet technology in counseling, training, and answering FAQs, and evaluate and disseminate "best practices." Accordingly, SBA will seek to

more rigorously evaluate the effectiveness of these centers by developing reliable performance measures.

Cross-cutting Programs:

SBA provides management and technical assistance through partnerships with other Federal, state and local agencies and the private sector. For example, SBA and the Department of Commerce (DOC) provide different products and services to American minority businesses, and focus on different market segments. SBA provides counseling and technical/management assistance to help small firms write business plans, apply for loans, compete for federal contracts, and run their businesses. SBA focuses on long-term competency-based skills and institution building. DOC provides services to minority businesses, regardless of size, and seeks to enhance the continued development of these firms by increasing their access to resources and markets.

The Office of Veterans Business Development is working in conjunction with the Department of Veterans Affairs' Center for Veterans Enterprise, the Department of Labor Assistant Secretary for Veterans Employment and Training, the DOL Office of Disability Policy, the Association of Small Business Development Centers, the Service Corps of Retired Executives, the National Veterans Business Development Corporation and the organized veterans community to implement significant outreach to the veterans and service-disabled veterans small business community, including mobilizing significant private sector resources.

SBA is also working with the Department of Commerce (DOC), the National Institute of Science and Technology (NIST), the United States Department of Agriculture (USDA) and the Minority Business Development Agency (MBDA) of the DOC on E-Commerce outreach and training.

Critical External Factors:

No other SBA program exemplifies the importance of "shared outcomes" more than the "access to entrepreneurial development assistance" programs. With the positive and cooperative assistance from a host of business resource partners, SBA is able to reach more than a million small firms annually. A critical success factor is the active cooperation and support of SBA's resource partners and the ability to identify means that increase the effectiveness and efficiency of service delivery through access to and training in the use of the Internet.

Strategic Goal 3: Streamline Disaster Lending

Means and Strategies:

In the wake of physical disasters, SBA's disaster loans are the primary form of Federal assistance for non-farm, private-sector disaster losses for individuals and businesses. The disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations fund rebuilding and recovery efforts.

SBA disaster assistance is a critical source of financial assistance in disaster-ravaged communities. It is crucial to respond to disaster victims as quickly and efficiently as possible. Agency strategies to help disaster victims include (1) developing a flexible infrastructure of resources that can be applied to a disaster area, (2) using the Internet to facilitate the disaster home loan application process, and (3) outsourcing disaster home loan servicing and carrying out asset sales.

Current interest rates charged to borrowers are determined according to statutory formulas: i.e., a lower rate, not to exceed 4 percent, is available to applicants without credit available elsewhere; and a higher rate, not to exceed 8 percent, is for those with credit available elsewhere. SBA offers physical disaster loans to individuals, physical disaster loans to businesses of any size, and economic injury loans to small businesses without credit available elsewhere. SBA also offers Disaster Loan assistance to (1) businesses that have essential employees who are reservists and National Guard members that are activated during a period of military conflict; and (2) eligible small businesses to fund specific projects to prevent disaster damage.

The dollar volume of approved loans varies from year-to-year, reflecting the inability to plan for and accurately forecast the next disaster. SBA's primary objective is to offer victims quality, timely, easy-to-access, and cost-effective help to rebuild their homes and businesses. Customer satisfaction is a key element of success for this program.

Programs that support disaster victims:

SBA operates a direct loan program to assist victims of physical disasters, and supports the servicing and collection of these loans after they have been made. The Agency makes disaster loans totaling approximately $1 billion each year and has an active portfolio of about $4 billion. In FY 2001, SBA included a large number of disaster loans in its Assets Sale Program.

Recent legislation was passed to establish two additional categories of economic injury disaster loans. The Pre-disaster Mitigation Pilot Loan Program is a 5-year program that provides financial assistance to small businesses located in designated communities participating in the Federal Emergency Management Agency's (FEMA) formal mitigation program to protect property from future disaster damage. The legislation authorizes SBA to use up to $15 million of loan authority in each fiscal year. The Military Reservist Economic Injury Loan Program provides financial and other

assistance to small businesses that are economically impacted because its owner(s) or employee(s) are called up for active duty in response to a military conflict.

Results and Resources
(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
Results:						
Homes restored to pre-disaster conditions	24,374	28,811	23,070	43,519	31,853	30,618
Businesses restored to pre-disaster conditions	5,780	7,365	5,148	5,275	7,011	6,116
SBA field presence established within 3 days	N/A	100%	100%	100%	98%	100%
Applications processed within 21 days	77%	60%	91%[1]	94%	80%	85%
Customer satisfaction rate	N/A	N/A	81%	TBD	80%	80%
Resources ($000):						
Disaster Assistance Operating Expenses:						
Disaster Loan Making	$79,116	$85,926	$83,929	$88,190	$124,933	$81,093
Disaster Loan Servicing	25,012	30,808	29,523	29,019	30,056	30,694
Loan Program Subsidy	149,953	170,427	173,908	152,613	237,963	111,140
Agency Support Cost Estimates:	N/A	N/A	18,631	25,533	26,299	30,875
Total	$254,081	$287,161	$305,991	$295,355	$419,251	$253,802

Major Accomplishments in FY 2001:

- Disaster Lending. Approved 48,852 disaster loans totaling $1.0 billion.
- Disaster Response. Processed 115,243—or 94 percent—applications within 21 days.

Major Activity for FY 2003:

- Continue development and implementation of the Disaster Assistance Credit Management Modernization (DCMM) Initiative: SBA will acquire the system in increments, with functional capabilities available to the office. SBA will join FEMA and the Department of Education in developing an integrated *disaster.gov* electronic gateway to help disaster victims access help in the most cost effective way possible.

Human Capital:

The agency will continue to coordinate staffing needs with FEMA and other Federal, state and local officials to establish field presence within three days of a declaration. The Agency will also continue the Disaster Personnel Reserve Corps to allow SBA to recruit, train, and have available personnel to assist the Agency in responding to disasters. SBA will continue to provide standardized loan-officer training. Increased use of technology for the disaster loan application process will facilitate operations at disaster regional centers.

[1] In FY 2000, the bulk of the loan activity occurred during the first three months of the fiscal year, enabling the program to exceed the loan processing goal due to low levels of activity in the remaining months.

Evaluation, Analyses and Surveys:

SBA will continue to conduct quality reviews of its disaster loan underwriting and documentation process. Customer surveys will also be conducted to measure the effectiveness and delivery of disaster assistance.

Cross-Cutting Issues:

Systematic coordination among Federal, state and local agencies is necessary before and during a disaster to ensure effective, efficient delivery of the array of recovery programs. The Federal Response Plan (FRP) describes the initiation, coordination and implementation of the wide array of Federal disaster programs that provide assistance directly to individuals and families and business owners attempting to recover from the effects of a presidential-declared major disaster. The Stafford Act assigns FEMA the coordination role, in which multiple Federal assistance programs are reviewed, initiated, implemented, and delivered to address the unique needs of a particular disaster area. Interagency coordination is critical to promote efficient, consistent Federal action. It also helps avoid *ad hoc* decision making, funding initiatives at cross-purposes, replicating efforts (e.g. multiple damage assessments, inspections, environmental reviews), and duplicating benefits.

Disaster assistance programs for individuals, families, and businesses often overlap in their coverage and purposes. Section 312 of the Stafford Act requires that no person, business concern, or other entity receive Federal disaster assistance for any part of a loss that has been covered by any other program, insurance, or any other source. FEMA has established a policy and procedure that outlines when duplication can occur, and describes procedures for preventing and rectifying duplication.

The following delivery sequence establishes the order for providing the major forms of assistance:

1. Voluntary organizations' emergency assistance and insurance proceeds, including additional living-expense benefits;
2. Disaster temporary housing assistance, including rental assistance, funds for minimal repairs, and provision for housing units;
3. SBA and United States Department of Agriculture disaster loans;
4. Individual and family grant awards; and
5. Additional assistance from voluntary organizations.

Regarding Disaster Assistance Loans for Reservists and National Guard members, SBA will coordinate with DOD and States Adjutant Generals and the National Veterans Business Development Corporation.

Critical External Factors:

The single most important external factor is the unpredictability of disasters. Helping businesses and families recover from disasters requires SBA to work closely with FEMA as well as other Federal, state and local agencies. SBA must coordinate closely with FEMA to establish disaster-assistance centers when physical disasters strike, provide expedited responses, reduce paperwork, and create ongoing partnerships with voluntary agencies, businesses, and industries in the disaster area.

SBA's CORPORATE MANAGEMENT STRATEGIES

Similar to the private sector, SBA needs to increase the pace of change and reform. To reform and modernize the Agency, SBA has developed a set of corporate management strategies that are aligned with the Administration's Management Agenda. Its management strategies include improving credit program management because SBA is one of the five largest Federal credit program agencies, and improving IT capital management because the use of technology is an important factor in making the Agency more effective. These strategies are:

1. Integrate Performance with the Budget (link resources to results)
2. Manage Human Capital More Strategically (restructure the workforce)
3. Improve Financial Management Information
4. Increase Competitive Sourcing
5. Expand E-Government
6. Improve Credit Program Management
7. Improve IT Capital Management

Strategy #1: Integrate Performance with the Budget

The Results Act requires Federal agencies to institute behavior changes, measure and declare the value of public sector programs, and improve internal management and decision-making. The core of the Results Act is the ability of a Federal agency to be transparent (i.e., define its work, its success, and its costs) and to be accountable (i.e., measure and report on progress). To manage for results, SBA must ensure that performance information is available, valid and verifiable, and that it has a cost allocation system that links resources to results achieved.

Major Accomplishments in FY 2001:

- Developed guidance on the preparation of outcome-based performance indicators and the improvement of data quality.
- Developed an activity based budgeting process to link resources to strategic goals.
- Produced SBA's first Integrated Performance and Accountability Report in March 2001.
- Integrated FY 2002 annual performance plan with the budget request.
- Carried out customer satisfaction surveys (SCORE and WBC clients).
- Evaluated the Small Business Development Center Program.
- Conducted a preliminary study of how to develop an econometric approach to estimate the demand for 7(a) loans.

Major Activities for FY 2003:
- Use outside contractors to evaluate programs.
- Link individual success to organizational achievement through performance standards.
- Improve process and procedures for data validation and verification.
- Develop client surveys to determine impact of counseling and training.
- Improve activity-based budgeting and monitoring.
- Institute a Balanced Scorecard approach to performance management.

Strategy #2: Manage Human Capital More Strategically

An organization's workforce represents the single largest resource in most agencies and, therefore, needs to be managed strategically. This means assessing the current capabilities and skills of the workforce, developing employee performance plans, recruiting and developing new employees, creating viable succession and retention plans, modernizing the HR office with electronic processing, and reducing the number of organizational layers and moving more personnel into front line positions.

Human capital planning is more important than ever because technology, an increasing demand for small business information and training, and loan processing simplification will likely require significant changes in SBA personnel needs. SBA will have fewer employees involved in loan processing, more employees focused on providing small business technical assistance, and more Agency personnel proficient in using and applying new technologies.

Through interest-based discussions with union partners, SBA will restructure its workforce with the guidance of the President's vision for a government that is citizen-centered and results-oriented. Accordingly, it will reduce the distance between citizens and decision-makers through staff redistributions, contracting of loan servicing and processing, and centralizing other core functions. SBA will reduce the number of managers and organizational levels, increase the span of control of remaining managers, and strengthen the ability of the front-line employees to provide high-quality service. Through this restructuring, SBA seeks to emulate the small businesses it serves by creating an efficient and flexible workforce that provides a level of high-quality service that Americans have come to expect from their Government.

Major Accomplishments in FY 2001:
- Completed workload and staffing analysis of Headquarters.
- Provided 1,087 instances of training (i.e., one person taking one course).
- Completed competency models for the Agency's business development function and the lender oversight function.
- Continued with the leadership development curriculum by training 106 senior managers and supervisors.
- Drafted a plan to have a portion of its workforce involved in some form of telecommuting.

- Conducted the first National Conference for District Office Veterans Affairs Officers.

Major Activities for FY 2003:
- Hire, develop and retain a diverse workforce with skills for mission accomplishment through recruitment flexibility, e.g., student loan repayment, tuition assistance, and expanded outreach to occupation specialty areas in targeted colleges and universities.
- Train and re-train our workforce in skills that best support our small business customers.
- Develop innovative training delivery methods through use of technology to ensure that training is cost effective, efficient and available on demand.
- Train managers and senior staff on leadership skills.
- Relocate employees to locations where they can best serve small business customers.
- Maximize SBA's family friendly programs through expanded transit benefits, telecommuting and comprehensive work-life wellness programs.
- Begin implementing 5-year Workforce Restructuring Plan.
- Continue workforce succession planning to close the gap between available candidates and potential and actual retirements in our management cadre through the Agency's candidate development programs including use of the new career intern program.
- Implement the results of the FY 2002 pilot projects. Specifically, during FY 2002, the Agency is testing various alternate District Office operating models and organizational schemes to determine those which are the most supportive of the President's goal of more direct governmental support of citizenry.
- Reduce the number of organizational layers in Headquarters.

Strategy #3: Improve Financial Management Information

Timeliness and accuracy of financial management information is essential for SBA. The Agency has a loan portfolio of approximately $53 billion. The General Accounting Office has recognized SBA for its analytical work on loan subsidy rates, its work on establishing a comprehensive cost allocation system, its integration of the budget and planning processes, and its implementation of internal controls.

Major Accomplishments in FY 2001:
- Received its fifth consecutive unqualified audit opinion on its FY 2000 financial statements.
- Improved internal control framework through computer-based training and management assessments of all higher risk areas.
- Continued to develop and enhance subsidy rate analyses, including completing limited econometric analysis and developing a more robust asset sales valuation model.
- Implemented a web-based cost allocation survey and system to tie resources to activities and results. Began integration of cost accounting with the budget planning and execution processes.
- Completed implementation of a modern, integrated financial management system to serve as SBA's core financial management system

- Increased the use of e-commerce for financial transactions with SBA employees and the public.

Major Activities for FY 2003:

- Accelerate the timeliness and usefulness of financial information, including producing quarterly financial statements, monthly budget/cost/performance reporting and analysis, and annual financial statements.
- Reconstitute the Loan Monitoring System (LMS) within the context of existing financial management infrastructure to obtain better lender oversight and risk management.
- Increase the use of e-commerce to move all financial transactions to web-based electronic payments and collections.
- Continue to oversee and monitor the level of erroneous/improper payments.
- Begin use of CCR vendor database for all SBA procurement actions.

Strategy #4: Increase Competitive Sourcing

Under the Federal Activities Inventory Reform (FAIR) Act, all Federal agencies must identify opportunities for competitive sourcing by determining the activities they perform and the associated Full-Time Equivalent staffing, by distinguishing between those that are inherently governmental and those of a commercial nature, and by analyzing the costs of different sources doing the activity. In accordance with The President's Management Agenda, 5 percent of the FTE's associated with the commercial activities is to be subjected to sourcing analysis during FY 2002, with 15 percent reviewed by the end of FY 2003. The analysis follows OMB's circular A-76 guidance, and is to determine if it is more efficient and cost-effective to retain the work within the government or contract it out to the private sector.

SBA has been a leader in sourcing major parts of its activities to the private sector. Banks make, service and liquidate a major part of SBA's loans (except disaster loans) while counseling and training is done through SBDCs, SCORE and Women's Business Centers.

Major Accomplishments in FY 2001:

- Completed the FAIR Act inventory that identified 66 percent of SBA's activities as commercial in nature.

Major Activities for FY 2003:

- Increase IT outsourcing. As SBA staff becomes more dependent on technology to do its work, telecommuting expands, and the workforce becomes more mobile, demands for "always-on" operations and customer service will likely increase. SBA will assess opportunities to outsource the operations of critical computer platforms to commercial hosting and application service provider firms under performance-based contracts.
- Increase competitive sourcing for not less than 15 percent of the commercial activities listed on the FAIR Act inventory.

Strategy #5: Expand E-Government

The Internet has become an important channel for outreach to small businesses. Most businesses are on-line. According to a study conducted for SBA in early 2001 by Access Markets International, about 5 million of the 7.5 million small businesses with employees (67 percent) are online. The Internet is rapidly becoming an important delivery channel for SBA. The average number of weekly "hits" at SBA's web sites have grown exponentially from less than 1 million in 1995 to 10 million in 2001.

Means and Strategies

SBA's electronic Government (E-gov) vision revolves around:

- Improving service to customers;
- Making SBA's products more tailored and more accessible to its customers;
- Expanding the quality and quantity of information and training;
- Reaching more customers more effectively;
- Connecting, leveraging and sharing agency resources across programs; and
- Increasing effectiveness and efficiency.

SBA's e-government strategies include the following functions:

- Conduct Transactions. At the core of SBA's Internet strategy is to the ability to conduct its business online: approving loan guaranties, providing eligibility and certifying minority businesses and applying for HUBZone preferences, providing answers online, and processing paperless disaster loans.
- Monitor Loans and Lenders. Substantively complete a systematic framework for lender oversight and risk management of SBA's lenders. The immediate benefits of the lender oversight and risk management components of LMS are two-fold. First, it will enhance lender oversight activities through strategic segmentation of SBA lenders by assigning each SBA lender into a risk category (low, moderate, and high) depending upon the individual risk assessment identified within LMS. Then, it will allow SBA to focus oversight resources on those lenders representing the highest risk to the Agency.
- Provide Access to Information. SBA is providing anytime, anyplace access to Government information and services through its own web site, the *U.S. Business Advisor*, and program specific gateways, e.g., Women's Online Business Center, SCORE online, and *BusinessLaw.gov*, which is being developed as a first intergovernmental legal and regulatory site for businesses.
- Access to Education and Counseling. SBA offers businesses online counseling, distance learning, online classrooms, and web-based tutorials to provide management assistance and solutions to business questions.

- Participate in the Administration's Quicksilver Initiative. SBA is managing partner for the Business Compliance Assistance initiative. The initiative includes as participating partners the Departments of Interior, Transportation, Energy, and Labor; EPA, OSHA, IRS, and INS. SBA is also participating in six other Quicksilver initiatives:
  - E-loans
  - Eligibility assistance on-line
  - Federal asset sales
  - International trade process streamlining
  - Disaster assistance and crises response
  - Integrated acquisition portal

Major Accomplishments in FY 2001:

- SBA developed the *BusinessLaw.gov* website. The law affects every business from licensing requirements to product liability. Many small businesses fail because they do not seek legal help at critical development stages. Determining which laws and regulations apply, understanding what they require and complying with them are ominous tasks. These tasks are further complicated by the fact that the rules are imposed by numerous different agencies at all levels of government: Federal, state and local.

  The primary goal in developing *BusinessLaw.gov* is to ease the burden of laws and regulations on small businesses by collecting Federal, state and local legal information and providing a central location where it can be accessed. In addition, the web site offers access to compliance assistance tools and electronic licenses and permits in selected locations. By providing greater access to important legal and regulatory topics in plain English, SBA will be helping small businesses identify potential problems early and take preventative action.

Major Activities for FY 2003:

- Implement performance-based service contracting techniques for contracts over $25,000, using Performance-Based Service Contracting (PBSC) techniques for not less than 20 percent of total eligible service contracting dollars.
- Manage and Implement the Business Compliance Assistance Portal - a Quicksilver Initiative.

  Complying with laws and regulations is burdensome for American businesses. SBA's Office of Advocacy estimates that the regulatory burden on citizens is more than $800 billion, with nearly $500 billion borne by small businesses in 2000. This translates to roughly $7000 per employee in firms with less than 20 employees.

  Businesses need a single point of access to all the laws and regulations that affect them. They also need online tools that will help them know if they are in compliance, as well as tools that will offer them compliance solutions. Because of the growing number of businesses with Internet access (67 percent of all firms with employees in early 2001), the Web is currently the most viable delivery channel for these services. A one-stop compliance site will significantly reduce the time (and cost) needed to find information.

For these reasons, the Business Compliance assistance site was selected as one of 23 OMB-approved E-Government ("Quicksilver") projects for the Administration's E-Gov platform. The initiative will incorporate best practices from the private sector to build this tool; namely, SBA will build upon the experience gained in the construction of the gateway and transaction engine in the United Kingdom (e.g., cross-agency permitting). The Agency will also use private sector best practices for knowledge management -- (i.e., individualized packaging of information to offer quick access to the right information for appropriate solutions). SBA will focus on improved navigation, personalization, expert tools, and interactive problem solving.

While better portal capability and consolidation of information is needed, the site will provide real solutions to business problems within a local context in a minimal amount of time. Rules-based software, XML and other Web-based technologies make it possible to create a site with these core capabilities:

1. *Online transactions*. Businesses will be able to apply online for selected licenses and permits at the Federal, state and local level.
2. *Quick access to laws and regulations*. Site users can access appropriate laws and regulations in three clicks or less.
3. *Compliance Assessment Aids*. Online tools can help businesses determine what laws and regulations apply to them and whether they are in compliance.

- In conjunction with Federal Emergency Management Agency, develop a one-stop portal for Federal disaster assistance. There is currently no single place that disaster victims can turn for information on available disaster assistance at Federal, state and local levels and how to apply for it. It is also not possible to apply for SBA disaster loan on-line nor track whether a loan application is complete, if the property inspection is completed or being scheduled or if a decision has been made. Often the disaster victim must fill out multiple forms. With Internet expert help, victims will be able to apply for SBA disaster financial assistance on-line. (Funded from existing and future FedSim monies.)
- In conjunction In conjunction with Department of Education, develop and implement e-lending applications for Federal loans at SBA.
- Anticipate the development of an electronic certification process—with built-in decision logic for 8(a) businesses, as well as continue to improve the HUBZone Empowerment Contracting (HUBZone) Program certification process. By investing in program infrastructure, SBA will be able to operate a strong certification program more efficiently and effectively.

Strategy #6: Improve Credit Program Management

SBA must maintain the financial safety and soundness of SBA's approximately $50 billion loan portfolio. As with financial institutions in the private sector, SBA has the fiduciary responsibility

to make its loan guaranty decisions wisely and guard its current investments carefully. Risk management issues have become more critical as the business model has changed to partnering with banks, outsourcing its core processes and selling its assets. In FY 2000, SBA placed greater reliance on the credit decisions of its lending partners to originate approximately 75 percent of all business loans. Congress has required the Agency to test the feasibility of contracting with the private sector for the servicing of 30 percent of our disaster home loans through the end of FY 2002. In the past two years, the Agency implemented a highly successful asset sale program and will continue to strategically sell our loan portfolio.

As more of the loan-making, servicing and liquidation processes are outsourced and centralized, SBA's exposure on the loan guaranties becomes increasingly subject to the credit policies and actions of the participating lenders. To protect the taxpayers' interests and to ensure the long-term viability of our lending programs, the SBA has begun to build a system to identify, understand, and respond appropriately to the behavior of its lending partners in an effective and timely way. This is the Loan Monitoring System (LMS).

Federal guidelines now require Federal credit agencies to include lender oversight in their program management. OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires Federal credit agencies to track and evaluate lender performance, including delinquency, default and claim rates. The Joint Financial Management Improvement Program (JFMIP) guidelines on Guaranteed Loan System Requirements similarly requires Federal agencies to monitor lender and servicer performance, identify lenders or servicers for regular or special review based on performance characteristics and periodically review lenders and servicers on-site.

Means and Strategies

SBA needs to ensure that its lender partners are good stewards of the loans they fund that are guaranteed by the SBA. To achieve this goal, the Agency must continue to improve its ability to assess and forecast the credit risk in SBA's loan portfolios. A key component in SBA's efforts to improve credit program management is the Office of Lender Oversight (OLO). One of OLO's primary functions is to identify, quantify, assess and evaluate the credit and program risk in SBA's loan portfolio.

Key objectives in this area include:

- Expanding existing portfolio analysis to provide more detailed and timely information and related analysis of performance trends.
- Conducting loan and investment program analyses in order to understand the drivers of performance and to identify areas of program risk.
- Analyzing, revising and, as appropriate, expanding upon existing credit program performance measures to ensure that performance measures utilized reflect the risk characteristics of SBA's loan portfolios.

- Conducting institutional analysis of SBA's lenders to provide meaningful input into decisions regarding lender's participation in SBA programs.
- Implementing an early warning system designed to identify lenders with high-risk characteristics and/or significant changes in performance indicators.
- Implementing a stress test approach to forecast portfolio performance under a variety of economic scenarios.
- Expanding safety and soundness examinations to include non-bank lenders in addition to Small Business Loan Companies (SBLCs).
- Expanding the existing compliance review process to include operational reviews of a lender's SBA activity.

SBA will develop an econometric model to forecast the performance of the Agency's loan programs under a variety of economic scenarios. This model will mainly support subsidy rate analyses and stress testing of the loan portfolio. Credit program management performance measures include currency rates, default rates, purchase rates and recovery rates. These are shown in the table below for our major loan programs.

Credit Program Performance Measures

	FY 1997 Actual	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Target	FY 2003 Target
CURRENCY RATE[1]							
7(a)	76.1%	89.4%	89.8%	90.4%	90.5%	90.6%	90.6%
504	97.5%	98.0%	98.0%	98.4%	98.5%	98.5%	95.5%
Disaster Home Loans	89.7%	90.8%	90.6%	89.6%	89.6%	89.6%	89.6%
Disaster Bus. Loans	80.9%	82.9%	85.0%	85.1%	85.2%	85.2%	85.2%
DEFAULT RATE[2]							
Disaster Home Loans	7.0%	5.9%	6.5%	7.4%	7.2%	7.2%	7.2%
Disaster Business Loans	14.7%	14.3%	12.1%	11.5%	11.5%	11.4%	11.4%
PURCHASE RATE[3]							
7(a)	17.3%	16.0%	15.1%	14.4%	14.3%	13.9%	12.7%
504	18.8%	15.8%	13.3%	11.9%	11.1%	8.4%	8.3%
RECOVERY RATE[4]							
7(a)	51%	51.7%	61.0%	60.5%	60.7%	60.3%	58.0%
504	44%	34.3%	31.1%	24.9%	31.3%	26.9%	20.0%
Disaster Home Loans	4.6%	4.6%	4.6%	4.6%	5.0%	4.5%	3.9%
Disaster Bus. Loans	11.9%	11.8%	11.8%	11.8%	19.4%	11.8%	9.2%

[1] The proportion of each year's disbursed dollars with on-time payments.
[2] The proportion of each year's disbursed dollars over 60 days delinquent.
[3] The proportion of each year's disbursed dollars purchased from lenders due to borrower default.
[4] The proportion of each year's purchased dollars recovered by SBA or lenders, net of expenses.

Major Accomplishments in FY 2001

- Developed and began testing a lender ranking model designed to identify lenders with high-risk financial condition characteristics.
- Started initial planning of the lender oversight and risk management components of the Loan Monitoring System (LMS) that will provide OLO with the tools to achieve the analytical objectives described above.
- Adopted a risk management approach to lender analysis. Conducted initial risk management analysis to identify those individual lenders representing the highest risk to the Agency in terms of loan volume and/or loan performance.
- Completed seven SBLC safety and soundness examinations during the third cycle of examinations. Utilized a risk-based approach to examinations by assigning levels of concern to each of the SBLCs. Based on the level of concern assigned, SBLCs are subject to examinations on a 12 to 24 month review cycle.
- Completed the third cycle of PLP compliance reviews as mandated by Congress and began the fourth cycle with programmatic changes to ensure that results are more meaningful and are available to program officials in a timely manner to make decisions regarding a lender's continued program participation.

- Provided lender oversight and lender review training for district office staff.
- Coordinated collection action on delinquent accounts with Treasury pursuant to Debt Collection Improvement Act of 1996. (At the end of calendar year 2001, SBA had $240 million of accounts in Treasury's administrative offset program, and $950 million of accounts in cross-servicing. During calendar year 2001, Treasury administrative offset collections amounted to $1.8 million and cross-servicing collections aggregated $7.7 million).

Major Activities in FY 2003:

- Substantively complete a systematic framework to provide a database of historical loan performance data for a 5-7 year period. This database will: allow SBA to conduct analysis of lender performance trends relative to SBA loans; obtain current information on a lender's SBA loan portfolio characteristics and status in a dynamic on-line system; and link SBA internal loan portfolio data with external financial data on SBA lenders.
- Implement liquidation authority (provided by statute) for qualified certified development companies. Until now, only PCLP CDCs and those CDCs participating in the liquidation pilot could liquidate their loans. Under recent statutory authority (12/00), more CDCs will be able to liquidate their own loans, thereby taking some of the burden off SBA. Conduct stress testing of the SBA loan portfolio.
- Enhance lender oversight activities through off-site institutional analysis and on-site lender reviews.
- Implement an off-site monitoring system for all non-bank lenders.
- Implement a risk-based lender review process for all SBA lenders.
- Provide lender oversight training for lender partners and field staff.

Erroneous Payments Discussion as required by OMB circular A-11, section 57

1. Section 7(a) Loans

The SBA's section 7(a) loan program guarantees up to approximately 85 percent on about $9-$10B in loans annually. If a borrower defaults, the participating lender may request SBA to honor its guaranty. SBA conducts a thorough review of the purchase request, including reviewing the loan origination, use of proceeds, and diligence by the participating lender in servicing and liquidating the loan. If SBA determines that there has been a breach in any of the terms of the loan, the guaranty agreement or SBA regulations by the participating lender, SBA may modify the purchase request through a "repair" (that is a payment less than the full guaranteed amount), or may deny the purchase request in full.

The measurement of erroneous payments in this program logically rests with the guaranty purchase process, since the government makes "payments" only through this process.

A January 3, 2000 Office of Inspector General (OIG) report provided the results of an audit of the 7(a) loan program that was conducted to determine whether loans were processed, disbursed, and used in accordance with SBA requirements. OIG concluded that 7(a) loans were not always made in accordance with SBA requirements. Based on a statistical projection of the limited sample results, OIG estimated that out of a portfolio valued at $32 Billion, loans valued at $405 million may have deficiencies that could result in some erroneous payments if SBA honors its guaranty on the loans.

As a result of the audit, OIG initially recommended that SBA centralize the guaranty purchase process for all loans. However, based on an agreement among OIG, the Office of Field Operations, the Office of General Counsel and the Office of Financial Assistance, program-wide centralization did not occur. Instead SBA took two separate actions designed to meet the spirit of the OIG recommendation. First, it centralized purchasing for loans made under the SBA Express program, which currently accounts for 28 percent of the number of 7(a) loans approved so far for FY 2002. Second, with the OIG's concurrence as to methodology, SBA established a process by which SBA centrally reviews a random sample of about 300 loan purchase decisions annually.

The SBA guaranty purchase review program was initiated to further strengthen the Agency's quality control and oversight of the 7(a) loan program. The initial findings from the review process indicated a "possible error" rate in recent guaranty purchases of 10.9 percent. This is a preliminary estimate based upon the early results of a very small statistical sample. SBA needs additional data from future reviews to validate this finding since records related to the level of errors in purchase disbursements have not existed prior to the newly initiated review process. In the absence of other specific data, we propose that an estimated error rate of 10.9 percent be established as SBA's baseline rate for FY 2001, without reference to FY1999-FY2000.

We further propose the following target rates for erroneous payments for FY2002-FY2003, based on our definition supplied above.

FY 2001 Baseline "error" rate	10.9%	$44.1 million
FY 2002 Target "error" rate	10.0%	$40.5 million
FY 2003 Target "error" rate	9.0%	$36.4 million

Assessment and Action Plan:

SBA will continue this review process to determine if there is a reduction in the error rate. The review process includes examination of a random sample of purchase decisions made by SBA field offices by teams of financial and legal staff. The goal of the reviews is to identify problem areas in policy and procedures that may require clarification, revision or development of training in order to achieve consistency in purchase decisions, as well as reduction of possible erroneous disbursements. SBA plans to review approximately 300 guaranty purchases each year. The first recommendations from this review process will be issued during fiscal year 2002. Part of this process includes recovery of funds that are identified as being paid erroneously.

In addition, through the conduct of regular reviews of lenders participating with SBA, the Agency assures and measures compliance with laws, regulations, and agency procedures. Lenders who fail to appropriately follow these requirements will not be allowed to continue to participate with SBA in the 7(a) program. Problems identified are factored into SBA's future lender approval and review processes.

2. Certified Development Company Program (504)

This asset based debenture program guaranteed approximately $2.2B in loans in FY 2001. The participating Certified Development Company (CDC) issues debentures to private investors to finance the transaction with the small business borrower. SBA's guaranty covers no more than 40 percent of the project costs, with the primary lender covering a minimum of 50 percent of the project costs and retaining a first lien position on any real estate and collateral. Borrowers must contribute a minimum of 10 percent, and this contribution increases to 15-20 percent for start-up businesses and single purpose buildings. Upon default by the borrower, SBA must honor its guaranty to the investor. This is done through a single Central Servicing Agent (CSA) with a tightly controlled procedure. Upon payment to the investor, the Agency attempts to collect via a workout with the borrower or through the liquidation of collateral.

The majority of 504 loans are reviewed by SBA loan specialists as part of the approval process. Under the legislatively mandated 504 program structure, CDCs have no liability for any 504 loan failure except for loans processed through the Premier Certified Lenders Program (PCLP). However, SBA counsel reviews 504 loans after closing and SBA provides necessary training to a CDC to overcome any identified flaws in the CDC's loan practices. Consequently, the potential for erroneous payments is likely to be lower.

The measurement of erroneous payments in this program would be based on a review of defaults. Defaults amount to about $60-70M annually. During FY 2002, the Agency will set up a procedure for measuring the amount of erroneous payments for 504 loans, subject to the availability of funds. This procedure will be similar to that used for the 7(a) program. A group of Headquarters and field personnel will review a sample of purchases made during FY 2001. The review will include an examination of the loan file and discussions with the loan officer handling the purchase if there are any discrepancies. Because the process is centralized in the loan servicing centers, we would anticipate that the performance is similar or slightly better than the 7(a) experience. Based on this, we estimate that erroneous payments are no higher than 10% or $7 million annually.

The goal for FY 2002 is to establish the baseline performance level. Once this is established, the SBA will develop a plan for improving performance.

3. Small Business Investment Company (SBIC) Program

SBICs are privately owned and managed venture capital firms. SBA guarantees approximately $2.5 billion in debentures and participation certificates (leverage) annually. The participating SBIC issues debentures and/or participation certificates to private investors to supplement the private capital raised by the fund. These funds are then used to finance investments in small businesses. The private capital is always at risk ahead of SBA. Upon default on payments by the SBIC for a debenture or participation certificate, SBA must honor its guarantee to the investor and attempt collection through working with the SBIC and the small business financed by the SBIC for a workout or through ultimate liquidation of collateral.

Unlike the 7(a) and 504 programs, the SBIC program has a very rigorous licensing process prior to issuance of any form of SBA leverage. Also, annual reviews of all leveraged SBIC participants are conducted to assure full compliance with all applicable laws, regulations and agency procedures. When a potential for default is identified, the SBIC is placed on a watch list and monitored extremely closely by SBA personnel. If a default does occur, the SBIC is reclassified into SBA's specific SBIC liquidation unit where a comprehensive review and analysis is undertaken to mitigate any ultimate loss to the government.

The SBA does not believe erroneous payments have been made to an SBIC. The actual disbursement to an SBIC requires the cooperation of two offices within the Investment Division and another independent party plus the disbursing agent prior to a payment being made.

However, SBICs may make investments in portfolio concerns that are in violation of the regulations governing their investments. SBICs are routinely examined (approximately once per year for leveraged SBICs) and potentially improper investments are reported by the examiners. These investments are oftentimes later found to be appropriate but the raw number is included below.

In the examination report the potential violations are referred to as "Findings." The Findings are resolved in a number of ways. After review, it is sometimes determined that no violation occurred. The terms and conditions of the investment may be amended to conform to the regulations. The terms may be approved by the Investment Division post investment. Alternatively, the SBIC may divest.

Although the Findings may, in fact, not be a violation, they can serve as a proxy for potential erroneous payments as the term is described in the OMB instructions. We have attempted to isolate those findings that potentially represent investments that should not have been made due to eligibility requirements or where funds were improperly disbursed, and not findings relating to purely structuring issues that are fairly easily corrected. The specific Findings are identified below (all references are to 13 CFR):

- Prohibited Conflicts of Interest (107.730 and 107.885)
- Relending, Foreign, Passive or Other Prohibited Investments, Including Prohibited Real Estate Financings (107.720)

- Inappropriate Distributions, Including Improper Dividends and Excessive Expenditures (107.520; 107.585; 107.1520-1580; 107.50)

The reported number of findings on this basis, the percentage of total investments and the estimated potential dollar amounts are as follows:

Fiscal Year	# of Investments	Percent of Total Investments	Potential $ Amounts
FY 99	32	1.03%	$19,200,000
FY 00	35	0.75%	$21,000,000
FY 01	28	0.65%	$16,800,000

Our objective is to have these potential violations not exceed 1.0 percent of the total investments made by the SBICs. It is estimated that the dollar amounts related to these investments do not exceed $600,000 on average. The average may vary depending upon the average size of investments made by SBICs.

Strategy #7: Improve IT Management

Means and Strategies

SBA has undertaken a multi-year IT management improvement and systems modernization effort that upgrades its infrastructure, offers electronic access, and ensures timely and accurate information. In accordance with Administration strategies and SBA strategic goals, the Agency's future technology environment must be able to support:

- "Anytime, Anywhere" access to SBA services, products and information.
- Increased face-to-face communications, internally within the SBA and externally with resource partners and small businesses through use of electronic interactive communications.
- Enterprise-wide databases that transcend separate systems and office boundaries.
- A reliable, expandable, high-capacity and cost-efficient information technology and communications infrastructure based on acknowledged technical standards, to support the SBA's work processes, as well as public access to its products and services.
- Timely and relevant information made available to all employees.
- An empowered workforce that can realize the productivity gains made possible by well-designed information technology.
- Improved delivery of services, products and information to small businesses.

Modernization efforts include:

- Implementing Enterprise architecture which is a blueprint for systematically and completely defining the organization's current (baseline) and desired (target) technology environment in support of its business goals.
- Developing an IT investment management guide as the Agency blueprint for selecting, controlling and evaluating IT projects within the Agency's IT projects portfolio.
- Implementing a formal investment process including an active investment review council, investment guidance, and the ITIPS automated reporting system.
- Improving systems security through institutionalizing its security program management procedures, developing an organizational framework for identifying and assessing risks and deciding what mix of policies and controls are needed, and regularly evaluating the effectiveness of IT security policies and controls, and act to address any identified weaknesses.

This performance goal is specified in terms of milestones. Goal achievement will be judged in terms of reaching these milestones.

Major Accomplishments in FY 2001:

- Implemented a pilot of electronic loan applications for loans processed through the PLP Center for a small set of test lenders.
- Implemented a new lender information system in the LMS: Partner Identification and Management Systems (PIMS).
- Continued implementation of Clinger-Cohen Act with implementation of new procedures such as the Information Technology Investment Manual (ITIM) and the development of other draft procedures such as IT Architecture maintenance, project management, and software acquisition.
- Completed SBA's Government Paperwork Elimination Act (GPEA) implementation plan.

Major Activities for FY 2003:

- Modernize systems, including (1) loan monitoring system, (2) financial management, and (3) disaster assistance.
- Continue infrastructure improvements (broadband, workstations, software licensing, and server architecture).
- Continue development and implementation of systems development and acquisition policies and procedures.
- Complete and maintain a survey of IT skills inventory and IT skills requirements.
- Acquire, configure and install the Disaster's DCMM systems for loss verification and disaster loan origination.
- IT security and maintenance program: IT services and components to enable security and privacy-protection to SBA employees, resource partners, and customers, and to enable the Agency to meet GPEA and E-Sign requirements. Budget allows for completion of the

Agency's PKI infrastructure, rollout of PKI services to remaining resource partners, acquisition and distribution of digital certificates and maintenance of PKI infrastructure.

- E-documentation and records management ($750,000): Electronic records & selected electronic document management tools (ERM-EDMS) to support E-Gov applications IT Outsourcing (Potential candidates are e-mail, web production, web design and production, and client-server computers): Logical candidates for outsourcing selected IT operations. E-government infrastructure: There is a two-fold focus for this initiative. First, SBA must acquire (through outsourcing, if possible) a reliable e-commerce infrastructure that supports 24 hours access by the public. It includes the CRM and KM tools for SBA to obtain maximum benefit from available data and information. Second, SBA, like all Federal agencies, is in the process of improving IT management through architecture development and management, investment management processes, and modernizing policy and procedures.
- System Security and Infrastructure: SBA is requesting $2.8 million to continue its security upgrades in order to comply with IT security laws and regulations.

Budget Crosswalk

The budget crosswalk table that follows illustrates the estimated resources to be devoted to achieving each of SBA's strategic goals in FY 2003. The table shows how the goals relate to specific and general program areas. Activities performed by an office often support the achievement of more than one goal. This is particularly true for support organizations such as executive direction and administrative offices. To present the full cost of achieving a particular goal, the costs of support offices are allocated to each goal. This crosswalk summarizes the results of an activity-based costing model as the basis for these cost allocations.

Explanation of Budget Crosswalk

The first column of the crosswalk details SBA's offices and programs categorized by the goal that best relates to that office or program's mission. The offices and programs listed in this column devote the vast majority of their effort toward the goal under which they are listed. The non-credit program shows resources specifically appropriated to SBA for these activities. The loan subsidy column shows the amount of budget authority used to subsidize loans. The Agency support column reflects the operating funds estimated to be used in support of these activities.

Cost Allocation Methodology

The estimated allocation of FY 2003 resources presented in the crosswalk is based on the results of the SBA's FY 2001 cost allocation study. The SBA's cost allocation model provides an estimate of the resources consumed to produce key outputs. The first step in developing a cost allocation model is to identify the Agency's key activities. Through the budget formulation process, each office identifies the key activities that they perform to produce outputs. An activity is a process that converts resources (materials, labor, and technology) into outputs. Agency Support costs such as rent and telecommunications are allocated to activities based upon "drivers" such as the square feet of space occupied by program offices.

Personnel costs are assigned to specific activities through the use of a detailed survey instrument. SBA employees are asked in an online survey to estimate the amount of time that they spend on SBA's key activities, including those outside of their particular organization. This data is used to compute an estimate of the personnel costs for each activity. The FY 2001 survey was conducted at two distinct points in time—at the 6-month or mid-year point, and at the fiscal yearend. The combined results of these two surveys were used in the FY 2001 cost model.

BUDGET CROSSWALK

(FY 2003 dollars in Thousands)

	Total	Non-credit programs	Loan Subsidy	Agency Support	Inspector General
Goal 1: Champion Small Business Interests					
Advocacy	**7,685**	0	0	7,685	0
Advocacy Database	**1,100**	1,100	0	0	0
Ombudsman	**1,852**	500	0	1,352	0
White House and State Conferences	**1,500**	1,500	0	0	0
Subtotal	**12,137**	**3,100**	**0**	**9,037**	**0**
Goal 2: Empower Entrepreneurs					
Loan Making/Servicing	**252,661**	0	89,317	163,344	0
Lender Oversight/Risk Management	**11,154**	0	0	11,154	0
Asset Sales Support	**6,642**	0	0	6,642	0
Surety Bond Guarantees	**4,959**	0	0	4,959	0
International Trade Program/USEAC	**3,842**	3,100	0	742	0
SBIC Debentures	**5,406**	0	0	5,406	0
SBIC Participating Securities	**10,021**	0	0	10,021	0
Microloan Technical Assistance	**23,323**	17,500	0	5,823	0
Rural Pilot Program	**1,012**	0	0	1,012	0
PRONet Program	**766**	500	0	266	0
Section 8(a) Program	**38,347**	0	0	38,347	0
Section 7(j) Program	**8,488**	3,600	0	4,888	0
HUBZone Program	**3,387**	2,000	0	1,387	0
SBIR	**2,180**	500	0	1,680	0
FAST Program	**3,261**	3,000	0	261	0
Rural Outreach Program	**293**	0	0	293	0
Government Contracting/Business Development	**31,035**	0	0	31,035	0
Veterans Outreach	**3,790**	750	0	3,040	0
SCORE	**7,077**	5,000	0	2,077	0
Women's Business Ownership	**23,067**	12,000	0	11,067	0
Small Business Development Centers	**116,057**	88,000	0	28,057	0
Drug-Free Workplace	**3,000**	3,000	0	0	0
Business Information Centers	**13,023**	475	0	12,548	0
Native American Outreach	**2,394**	1,000	0	1,394	0
National Women's Business Council	**870**	750	0	120	0
Subtotal	**576,055**	**141,175**	**89,317**	**345,563**	**0**
Goal 3: Streamline Disaster Lending					
Disaster Assistance Programs	233,281	0	111,140	121,641	500
Subtotal	**233,281**	**0**	**111,140**	**121,641**	**500**
Inspector General	**15,011**	0	0	0	15,011
Reimbursable Programs	**4,761**	4,761	0	0	0
Total Obligations	**841,245**	**$149,036**	**$200,457**	**$476,241**	**$15,511**

Summary of Budget Authority

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Salaries and Expenses				
Administrative Operating Expenses	$ 154,541	$ 161,482	$ 217,831	$ 56,349
Non-Credit Programs and Initiatives	256,094	176,994	144,275	(32,719)
Subtotal	$ 410,635	$ 338,476	$ 362,106	$ 23,630
Business Loans Program Account				
Direct Loans New Budget Authority	$ 2,250	$ 1,860	$ 3,726	$ 1,866
Guaranteed Loans Budget Authority	163,160	78,000	85,360	7,360
Supplementals, Contingencies	0	75,000	0	(75,000)
Administrative Expense	129,000	129,000	133,769	4,769
Subtotal	$ 294,410	$ 283,860	$ 222,855	$ (61,005)
Disaster Loans Program Account				
Direct Loans				
New Budget Authority	$ 76,140	$ 87,360	$ 76,140	$ (11,220)
Supplementals, Contengencies	60,000	75,000	0	(75,000)
Administrative Expense				
New Budget Authority	108,354	122,354	122,141	(213)
Supplemental Appropriation	40,000	0	0	0
Subtotal	$ 284,494	$ 284,714	$ 198,281	$ (86,433)
Surety Bond Guarantee Fund	$ 0	$ 0	$ 0	$ 0
Office of Inspector General	$ 11,953	$ 11,464	$ 15,011	$ 3,547
Appropriated Funds Rescinded	$ (1,983)	$ 0	$ 0	$ 0
Total Budget Authority	**$ 999,509**	**$ 918,514**	**$ 798,253**	**$ (120,261)**
Regular Appropriated Funds	$ 899,509	$ 768,514	$ 798,253	$ 29,739
Supplemental/Emergency Funds	$ 100,000	$ 150,000	0	$ (150,000)

Summary of Positions and Full Time Equivalents

ON BOARD POSITIONS

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Salaries and Expenses – Regular Funds	2,736	2,610	2,610	0
Non Credit Programs and Initiatives	77	42	42	0
Subtotal	2,813	2,652	2,652	0
Disaster	1,328	2,084	1,300	(784)
Inspector General	108	124	144	20
Total	4,249	4,860	4,096	(764)

FULL TIME EQUIVALENTS (FTE)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Salaries and Expenses – Regular Funds	2,793	2,709	2,618	(91)
Non Credit Programs and Initiatives	70	36	42	6
Subtotal	2,863	2,745	2,660	(85)
Disaster	1,085	1,652	1,060	(592)
Inspector General	108	120	130	10
Total	4,056	4,517	3,850	(667)

Summary of Non Credit Programs & Special Initiatives

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate[1]	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Executive Direction				
Advocacy Database and Research	$1,297	$1,100	$1,100	$ 0
National Ombudsman (inc. operations)	554	500	500	0
Veteran's Outreach	0	750	750	0
Veteran's Business Development Corporation	4,000	0	0	0
State Conferences	0	0	1,500	1,500
Management & Administration				
Loan Monitoring System (LMS)	7,889	0	0	0
Government Contracting/Business Dev.				
7(j) Technical Assistance	3,241	3,600	3,600	0
BusinessLINC	6,919	2,000	0	(2,000)
PRO-Net	450	*	500	500
SBIR-Rural Outreach	1,500	500	500	0
SBIR – FAST	3,500	3,000	3,000	0
HUBZones Program (inc. operations)	1,791	*	2,000	2,000
Entrepreneurial Development				
Small Business Development Centers (SBDC)	85,993	90,010	88,000	(2,010)
Drug-Free Workplace	3,498	3,000	3,000	0
Service Corps of Retires Executives (SCORE)	3,750	5,000	5,000	0
Business Information Centers	499	500	475	(25)
Women's Business Centers	11,989	12,000	12,000	0
Census Reimbursement-SWOBE	691	694	0	(694)
Women's Business Council (inc. operations)	714	750	750	0
Native American Outreach	0	0	1,000	1,000
Capital Access				
US Export Assistance Centers operations	2,579	3,100	3,100	0
Microloan Technical Assistance	18,385	17,754	17,500	(254)
PRIME	15,000	5,000	0	(5,000)
New Market Venture Capital Tech Assistance	120	29,880	0	(29,880)
Reimbursable Programs[2]	4,604	5,529	4,761	(768)
Congressional Initiatives	41,291	30,000	0	(30,000)
Total	$223,176	$214,667	$149,036	($65,631)
Newly Appropriated Funds	**$255,191**	**$176,994**	**$144,275**	**($32,719)**

* To be funded in FY 2002, but source not identified.
[1] Includes use of carryover funds from FY 2001.
[2] Not appropriated funds but reimbursements under the Economy Act, other agreements, and other sources of funds.

Summary of Congressional Initiatives
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
AZ Dept. of Public Safety	$ 850	$ 0	$ 0	$ 0
Bronx Child Study Center	0	1,000	0	(1,000)
Brotherhood Bus. Dev. & Cap. Fund	983	0	0	0
Buckhorn Children's Foundation	590	0	0	0
Catskill Mountain Foundation	0	350	0	(350)
Chippewa Falls, Wisconsin	0	500	0	(500)
City of Chesapeake, VA	0	300	0	(300)
Durant, OK Rural Enterprises	197	200	0	(200)
East LA Community Union	983	500	0	(500)
Electronic Commerce Center, Scranton, PA	983	0	0	0
Gadsden State College, Ctr. For Econ. Dev.	246	0	0	0
George Mason University	0	1,000	0	(1,000)
Greenpoint Mfg. & Design Ctr.	983	500	0	(500)
Green Thumb, Inc.	0	1,000	0	(1,000)
Hamilton County, TN	0	1,000	0	(1,000)
Illinois Coalition	0	2,000	0	(2,000)
Infotonics Ctr. Of Excellence, Rochester, NY	0	400	0	(400)
James Madison University	0	1,000	0	(1,000)
Johnstown, PA Regional Industries Ctr.	246	500	0	(500)
Johnstown, PA Regional Industries Ctr.	246	0	0	0
Lewis and Clark College	0	300	0	(300)
Long Island Bay Shore Aquarium	983	150	0	(150)
Los Angeles Conservancy	0	2,000	0	(2,000)
Mont. Cty. KY Ed. & Train. Facility	344	0	0	0
MountainMade Foundation	0	1,100	0	(1,100)
Morehead State U Science Res. & Tech Ctr.	1,966	0	0	0
Moundsville, WV Economic Dev. Council	492	0	0	0
Museum of Science & Industry	786	0	0	0
N.VA Business Asst. Dev. Group	246	0	0	0
National Center for e-Commerce, Pol. Univ.	0	400	0	(400)
National Corr. And Law Enf. Trng. & Tech. Ctr.	0	400	0	(400)
National Museum of Jazz, New York, NY	983	0	0	0
New York Bronx Museum	2,458	0	0	0
New York Small Business Devel. Center	0	500	0	(500)
Nicholas Cty, KY Indust. Auth	344	0	0	0
NTTC @ Wheeling Jesuit University	2,458	500	0	(500)
NY City Parks & Rec., Bronx, NY	492	0	0	0
NY Public Library, Bronx, NY	492	0	0	0
Oakridge, TN Tech & Econ. Dev.	983	0	0	0
OK Dept. of Career & Tech. Ed.	492	500	0	(500)
OK State University	0	100	0	(100)
Old Sturbridge Village Arts & Tourism	197	0	0	0
Paintsville, KY Regional Arts & Tourism	1,966	0	0	0
Pike Cty, KY Interpretive Dev, Init.	492	0	0	0
Portage County, Wisconsin	0	150	0	(150)
Promesa Enterprises, Bronx, NY	1,966	0	0	0
Pulaski Cty, KY Emergency Training Ctr	1,278	0	0	0

Summary of Congressional Initiatives
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Safer Foundation	983	0	0	0
Shenandoah University	0	1,500	0	(1,500)
Social Compact, Realizing the Dream	0	700	0	(700)
Software Productivity Consortium	0	1,000	0	(1,000)
Somerset, KY Center for Rural Dev	4,915	0	0	0
Soundview Comm. Action, Bronx, NY	983	1,000	0	(1,000)
Southern KY, Economic Development Corp.	4,915	1,500	0	(1,500)
Southern KY, Rehabilitation Industries	0	450	0	(450)
Southern KY, Tourism Development Assoc.	0	1,000	0	(1,000)
State University of NY, Inst. Of Entrep.	1,475	0	0	0
Union College, KY, Tech. & Media Ctr.	1,473	0	0	0
University of Montana	0	300	0	(300)
University of W. Florida	0	1,000	0	(1,000)
Upper Manhattan Empowerment Zone	0	1,000	0	(1,000)
Urban Justice Center, NYC	0	500	0	(500)
Vandalia Heritage Foundation	197	0	0	0
Western Carolina University	590	0	0	0
West Virginia High Tech Consortium	0	500	0	(500)
Yonkers, NY, Nepperhan Valley Tech Ctr	0	500	0	(500)
Total Congressional Initiatives	$ 41,291	$ 30,000	$ 0	($30,000)

Summary of Credit Programs

(Dollars in Thousands)

	Program Level				Budget Authority[1]				Subsidy Rate			
	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Microloan Direct	$29,810	$25,513	$26,553	($1,040)	$2,668	$1,730	$3,465	$1,735	8.95%	6.78%	13.05%	6.27%
Total Direct	$29,810	$25,513	$26,553	($1,040)	$2,668	$1,730	$3,465	$1,735	8.95%	6.78%	13.05%	6.27%
Guaranty												
Section 7(a) Guaranty	$9,121,709	$9,352,804	$4,850,000	($4,502,804)	$106,724	$100,075	$85,360	(14,715)	1.17%	1.07%	1.76%[3]	0.69%
Section 7(a) "Emergency"	0	4,491,018	0	(4,491,018)	0	75,000	0	(75,000)	N/A	1.67%[2]	N/A	N/A
Section 7(a) Guaranty -- DELTA	1,711	20,000	20,000	0	32	346	302	(44)	1.87%	1.73%	1.51%	(0.22%)
Section 7(a) Y2K Loans	25	0	0	0	1	0	0	0	4.04%	N/A	N/A	N/A
Section 504 CDC Guaranty	2,268,758	4,500,000	4,500,000	0	0	0	0	0	0.00%	0.00%	0.00%[4]	0.00%
Section 504 CDC Guaranty - DELTA	0	2,500	2,500	0	0	21	22	1	0.89%	0.84%	0.88%	0.04%
Microloan -- Guaranty	2,000	2,000	2,000	0	159	163	168	5	7.95%	8.17%	8.42%	0.25%
New Market Venture Capital	0	151,707	0	(151,707)	0	21,952	0	(21,952)	14.44%	14.47%	N/A	N/A
SBIC – Participating Securities	2,108,702	3,500,000	4,000,000	500,000	27,624	0	0	0	1.31%	0.00%	0.00%[5]	0.00%
SBIC – Debentures	486,714	2,500,000	3,000,000	500,000	0	0	0	0	0.00%	0.00%	0.00%[6]	0.00%
Total – Guaranty	$13,989,620	$24,520,029	$16,374,500	($8,145,529)	$134,540	$197,557	$85,852	($111,705)				
Total Business	$14,019,430	$24,545,542	$16,401,053	($8,146,569)	$137,208	$199,287	$89,317	($109,970)				
Regular Disaster	$874,074	$742,761	$795,000	$52,239	$152,613	$108,963	$111,140	2,177	17.46%	14.67%[8]	13.98%	(0.69%)
"Emergency" Disaster	0	556,995	0	(556,995)	0	129,000	0	(129,000)	0	23.16%	0	(23.16%)
Disaster	$874,074	1,299,756	$795,000	(504,756)	$152,613	237,963	$111,140	(126,823)	N/A	N/A	N/A	N/A
Surety Bond Guarantee	$261,411	$ 1,672,000	$1,672,000	$ 0	$ 0	$ 0	$ 0	$ 0	N/A	N/A'	N/A	N/A

[1] Includes use of carryover funds from prior years.
[2] 1.07 percent is current services rate; Defense Bill (P.L. 107-117)/Supplemental rate=1.67 percent.
[3] Original current service rate of .88 percent is changed to a rate or 1.76 percent as a result of P.L. 107-100.
[4] 0.00 percent is current services rate with fee from .410 to .425 percent.
[5] Fee changes from 1.376 to 1.311 to maintain 0 percent.
[6] Fee changes from .866 to .877 to maintain 0 percent.
[7] 14.67 percent is current services rate; Defense Bill (P.L. 107-117)/Supplemental rate=23.16 percent.

Justification of Changes from FY 2002 to FY 2003

(Excluding Disaster Assistance and Office of Inspector General)
(Dollars in Thousands)

	FY 2001 Actual		FY 2002 Estimate		FY 2003 Request		Increase/(Decrease) vs FY 2002 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Salaries and Expenses:								
Compensation & Benefits	2,736	$ 223,078	2,610	$ 233,993	2,610	$ 260,744	0	$ 26,751
Travel and Transportation of Employees	0	5,043	0	3,835	0	7,939	0	4,104
Rents & Communication	0	33,414	0	34,432	0	36,185	0	1,753
Postage and Printing	0	2,958	0	2,549	0	2,755	0	206
All Other	0	40,511	0	28,527	0	56,831	0	28,304
Subtotal	2,736	$ 305,004	2,610	$ 303,336	2,610	$ 364,454	0	$ 61,118
Non-Credit Programs & Special Initiatives	77	218,572	42	176,994	42	144,275	0	(32,719)
Subtotal	2,813	$ 523,576	2,652	$ 480,330	2,652	$ 508,729	0	$ 28,399
Reimbursement and Carryover Funds	0	4,604	0	37,673	0	4,761	0	(32,912)
Total	2,813	$ 528,180	2,652	$ 518,003	2,652	$ 513,490	0	$ (4,513)

FY 2003 Increase/(Decrease) vs FY 2002 Estimate

Compensation & Benefits	To maintain the FY 2002 EOY of 2,652 employees; a 3.6% general pay increase in 1/03; annualization of the FY02 pay raise; normal within grade increases and promotions; and $13,907 for pension costs normally paid by OPM.
Travel & Transportation	Includes a small increase to restore these funds back to a more normal operating level, plus costs of proposed employee relocations.
Rents and Communication	Includes a General Services Administration estimated rent increase.
Postage and Printing	Includes a small inflationary increase.
Other Services	Reflects a minimal increase to cover anticipated inflationary increases in all areas of operations; and additional funds for new initiatives as defined elsewhere in this document.
Reimb. & Carryover Funds	Reflects changes in carryover balances from FY 2001 into FY 2002, principally from NMVC and SBDC.

SUMMARY OF POSITIONS AND AMOUNT
(Dollars in thousands)

	FY 2001 Actual		FY 2002 Estimate		FY 2003 Request		Increase (Decrease) vs. FY 2002 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Executive Direction								
Administrator	22	$ 3,241	23	$ 2,837	23	$ 2,920	0	$ 83
General Counsel	70	7,852	70	8,171	70	8,438	0	267
Congressional and Legislative Affairs	10	951	10	983	10	1,011	0	28
Hearings and Appeals	11	1,074	11	1,162	11	1,196	0	34
Communications and Public Liaison	26	2,395	26	2,429	26	2,513	0	84
Field Operations	8	1,490	8	1,376	8	1,438	0	62
EEO and Civil Rights Compliance	19	1,809	19	1,844	19	1,907	0	63
Advocacy	35	4,146	45	4,920	45	5,642	0	722
Veterans Business Development	5	819	5	577	5	592	0	15
Chief Financial Officer	79	8,066	81	8,443	81	8,768	0	325
Subtotal	285	$ 31,843	298	$ 32,742	298	$ 34,425	0	$ 1,683
Management and Administration								
Immediate Office	7	$ 695	7	$ 577	7	$ 594	0	$ 17
Human Resources	54	5,066	54	5,231	54	5,427	0	196
Administration	47	8,133	47	7,375	47	7,867	0	492
Chief Information Officer	55	26,190	62	22,637	62	24,472	.0	1,835
Subtotal	163	$ 40,084	170	$ 35,820	170	$ 38,360	0	$ 2,540
Gov Contr and Min Enterprise Development								
Immediate Office	4	$ 905	4	$ 444	4	$ 457	0	$ 13
Operations & Program Support	13	985	13	1,046	13	1,077	0	31
Planning& Policy Liaison	16	1,686	16	1,757	16	1,809	0	52
Business Development	53	3,678	53	3,707	53	3,815	0	108
Government Contracting	149	13,275	149	14,332	149	14,749	0	417
Subtotal	235	$ 20,529	235	$ 21,286	235	$ 21,907	0	$ 621

SUMMARY BY ACTIVITY

(Dollars in thousands)

	FY 2001 Actual		FY 2002 Estimate		FY 2003 Request		Increase (Decrease) vs. FY 2002 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Capital Access								
Immediate Office	5	$ 717	5	$ 635	5	$ 654	0	$ 19
Lender Oversight	6	2,659	6	1,265	6	2,317	0	1,052
Financial Assistance-HQ	44	3,401	53	4,370	53	4,511	0	141
Financial Assistance-Servicing Centers	105	7,724	105	7,468	105	7,712	0	244
Investment Division	92	8,771	92	9,393	92	9,696	0	303
Surety Guarantees	13	1,134	13	1,182	13	1,222	0	40
International Trade	14	989	14	963	14	992	0	29
Subtotal	279	$ 25,395	288	$ 25,276	288	$ 27,104	0	$ 1,828
Entrepreneurial Development								
Immediate Office	6	$ 864	6	$ 870	6	$ 896	0	$ 26
Small Business Development Centers	17	1,640	17	1,751	17	1,802	0	51
Business Initiatives	13	1,855	15	1,342	15	1,381	0	39
Native American Affairs	1	263	1	271	1	279	0	8
Women's Business Ownership	11	890	11	858	11	878	0	20
Subtotal	48	$ 5,512	50	$ 5,092	50	$ 5,236	0	$ 144
Regional and District Offices	1,726	$ 136,281	1,569	$ 141,801	1,569	$ 150,384	0	$ 8,583
Agency-wide (not distributed)		45,360		41,319		87,038	0	45,719
Subtotal - Operating Budget	**2,736**	**$ 305,004**	**2,610**	**$ 303,336**	**2,610**	**$ 364,454**	**0**	**$ 61,118**
Non-Credit Programs & Special Initiatives	**77**	**223,176**	**42**	**214,667**	**42**	**149,036**	**0**	**(65,631)**
Total Salaries and Expenses	**2,813**	**$ 528,180**	**2,652**	**$ 518,003**	**2,652**	**$ 513,490**	**0**	**$ (4,513)**
Disaster Direct Program								
Loan Making	1,106	$ 88,190	1,862	$ 124,933	1,078	$ 81,093	(784)	$ (43,840)
Loan Servicing	222	29,019	222	30,056	222	30,694	0	638
Total Disaster Direct Program	**1,328**	**$ 117,209**	**2,084**	**$ 154,989**	**1,300**	**$ 111,787**	**(784)**	**$ (43,202)**
Inspector General	**108**	**$ 12,367**	**124**	**$ 12,458**	**144**	**$ 15,511**	**20**	**$ 3,053**
Grand Total	**4,249**	**$ 657,756**	**4,860**	**$ 685,450**	**4,096**	**$ 640,788**	**(764)**	**$ (44,662)**

Justification of Changes from FY 2002 to FY 2003

(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
NON-CREDIT PROGRAMS/INITIATIVES:			
White House and State Conferences: SBA proposes a series of conferences to celebrate the success of small business over the past 50 years. Moreover, these activities will highlight emerging issues that face the Nation's 25 million small businesses.	$0	$1,500	$1,500
Program for Investment in Microenterprises (PRIME): PRIME was authorized in 1999 to provide technical assistance to small businesses and to the organizations that support them. Similar assistance is already provided through existing Federal, State, local, and private-sector programs, including SBA's Microloan program and Small Business Development Centers. PRIME duplicates existing programs and no funding is requested FY 2003.	5,000	0	(5,000)

Justification of Changes from FY 2002 to FY 2003

(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
NON-CREDIT PROGRAMS/INITIATIVES:			
Business, Learning – Investment – Networking and Collaboration (BusinessLINC): The BusinessLINC program was established to facilitate the establishment of mentor-protégé relationships between large and small businesses. These relationships are already facilitated through existing Federal and private-sector programs, such as the Department of Defense mentoring program, National Aeronautics & Space Administration's mentoring program, the Women's Network, and the 8(a) program. The 7(j) management and technical assistance program also provides similar services as the BusinessLINC program. BusinessLINC duplicates existing programs and SBA proposes not to fund it in FY 2003.	$2,000	$0	($2,000)
Survey of Women-Owned Businesses: SBA works closely with the Census Bureau to obtain information on women-owned business, gathered from the 5-year census process. In order to support this information gathering, SBA has been required to contribute annual funding to the Census Bureau to offset the costs of this element of the census survey. The Congress in SBA's annually appropriates this amount budget, and passed-through directly to the Census Bureau. For FY 2003, the Census Bureau estimated the SBA's contribution to be $1,057,484. The Administration has not included this request in SBA's budget, and proposes that it be funded directly in the budget for the Census Bureau.	694	0	$ (694)

Justification of Changes from FY 2002 to FY 2003
(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
NON-CREDIT PROGRAMS/INITIATIVES:			
Native American Outreach: According to the 2000 Census, there are 2.5 million American Indians and Alaskan Natives. The average unemployment rate on reservations in 1999 was 43 percent. The SBA Office of Native American Affairs in dedicated to ensuring that all American Indians, and Native Alaskans and Hawaiians seeking to create, develop, and expand small businesses have full access to the necessary business development and expansion tools available through Agency programs. The current technical assistance programs operate in only six states. The SBA 2003 Native American Economic Development Program is a comprehensive initiative designed to meet the specific cultural needs and result in small business creation. This initiative will make funding directly available to tribes to assist in economic development and job creation.	$0	$1,000	$1,000
Congressional Initiatives: Each year as part of the congressional budget process, there are a number of program initiatives that are included in SBA's final appropriation. These initiatives are not authorized in the Small Business Act and, therefore, are not requested as part of the President's annual budget.	30,000	0	(30,000)
Other Non-Credit Programs and Initiatives: The remaining programs and initiatives for small business assistance are proposed to be funded at the same level as FY 2002. The difference is $2 million is funded for HubZones and $500,000 for ProNet and a $25,000 reduction in BICs.	139,300	141,775	2,475

SUMMARY OF RESOURCES

Summary of Non-Credit Programs/Initiatives:			
- **Direct Appropriation to S&E**	**$176,994**	**$144,275**	**($32,719)**
- Not Appropriated			
- SDB Certifications	1,516	1,500	(16)
- Gainsharing	2,404	3,000	596
- Other reimbursables & carryovers	33,753	261	(33,492)
Summary of Non-Credit Prog/Init Availability	$214,667	$149,036	($65,631)

Justification of Changes from FY 2002 to FY 2003

(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
OPERATING BUDGET:			
Restructuring and workforce transformation: SBA will implement the results of its FY 2002 pilot efforts. This effort will require an increased use of technology ($2 million); the reconfiguration and movement of office locations ($2.5 million), files ($1 million) and personnel ($5 million), enhanced skills training of our staff to meet the challenges of the new SBA ($2 million), and additional contracting-out of commercial activities ($2.5 million). These expenditures will result in long-term savings.	$ 0	$ 15,000	$15,000
E-Government Portal Business Compliance One-Stop: The Administration's initiative to be more citizen-centered and accessible to the public 24/7, includes SBA's selection to be the lead Agency to develop and implement a one-stop portal to provide small business information regarding laws and regulations. This website is called Business Compliance One-Stop.	$ 0	$ 5,000	$5,000
IT Security, Infrastructure, and other e-Government initiatives: In order to ensure sufficient security of its computer systems and to provide small businesses increased access to all of SBA's services 24/7, SBA needs to continue to support the upgrading of its information technology infrastructure ($2.8 million). In addition, SBA will begin implementation of an e-documents management system to assist with the retention and administration of SBA's electronic records ($750,000).	$ 0	$ 3,550	$3,550

Justification of Changes from FY 2002 to FY 2003
(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
OPERATING BUDGET:			
Program Evaluations: SBA will initiate selected evaluations and studies of key programs, especially those using private-sector partnerships, to ensure taxpayers funds are creating value and that appropriate results are being achieved consistent with SBA's mission and Administration objectives.	0	850	850
Asset Sales Program Financial Advisor: To support SBA's continued efforts to sell loan assets, we contract with an expert program financial advisor.	$ 0	$ 1,500	$ 1,500
Pension Costs: SBA's estimate of pension costs previously paid by OPB. Legislation is requested to authorize this budgetary change governmentwide to reflect full costs of salaries and benefits.	$0	$13,907	$13,907

Justification of Changes from FY 2002 to FY 2003
(Dollars in Thousands)

Other Operating Budget Changes: In FY 2003, SBA will maintain its FY 2002 end-of-year staffing level. The annualization of the FY 2002 pay raise and normal inflationary increases in areas such as employee pay, travel, rents, printing, and contracts will be funded within this level. This increase will re-establish an appropriate "current services" level of operations.	$ 0	$ 21,311	$21,311
Summary of Operating Budget Funding:			
- Direct Appropriation to S&E	**$161,482**	**$217,831**	**$56,349**
- Transfer from Business Loans	129,000	133,769	4,769
- Transfer from Disaster Loans	9,854	9,854	0
- Fee Income	3,000	3,000	0
Summary of Operating Budget Availability	**$303,336**	**$364,454**	**$ 61,118**

Justification of Changes from FY 2002 to FY 2003
(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
LOAN PROGRAMS:			
Section 7(a) General Business Loans: SBA's largest lending program provides government guarantees for loans made by participating lenders. In FY 2002, the request of \$85.36 million will be executed at a subsidy rate of 1.76 percent to provide a program level of \$4.85 billion.	\$100,075	\$85,360	(\$14,715)
Section 7(a) "Disaster" Loans: In FY 2002, SBA received an appropriations of \$75 million to help respond to the needs of small businesses following the September 11th attacks. This one-time appropriation, executed at a subsidy rate of 1.67, funds a program level of \$4.491 billion. Between the regular 7(a) program and this program, \$13.8 billion was provided in FY 2002.	\$75,000	0	(\$75,000)
Microloans—Direct Loan Program: The Microloan program provides access to very small loans (up to \$35,000) to help meet the needs of small businesses through partnerships with microloan intermediaries. For FY 2003, we request a direct program level of \$26.6 million, with an increased subsidy rate from 6.78 percent to 13.05 percent, due to changes in the discount rate and average loan size resulting in an increased need for new appropriations. In addition, 7 percent of appropriation is transferred to S&E for microloan intermediary training.	1,730	3,726	1,735

Justification of Changes from FY 2002 to FY 2003
(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
LOAN PROGRAMS:			
Disaster Loans: SBA's Disaster Loan Program provides long-term loans at subsidized interest rates to victims of natural disasters and loans to mitigate disaster damages. For FY 2002, we received two appropriations to this account: $87.3 million with our initial annual appropriation, combined with carryover balances and recoveries of $15.6M, to fund a program level of $702 million in lending at a 14.67 percent subsidy rate; and $60 million carried over from FY 2001 plus $75 million as part of the FY 2002 emergency supplemental to fund $583 million in lending in response to the September 11 events at a 23.16 percent subsidy rate. For FY 2003, we request funding at a level of $76.1 million, combined with a projected carryover from FY 2002 of $25 million and $10 million in recoveries, to fund a program level of $795 million (the five-year average) at a 13.98 percent subsidy rate.	$237,963	$111,140	($126,823)
Summary of Loan Programs:			
- Appropriation for business loans	$154,860	$89,086	($65,774)
- Appropriation for business admin.	129,000	133,769	4,769
- Appropriation for disaster loans	162,360	76,140	(86,220)
- Appropriation for disaster admin.	122,354	122,141	(213)
Summary of Loan Program Appropriations	**$568,574**	**$421,136**	**($147,438)**
Summary of Loan Program Availability	$592,239	$312,244	($279,995)
Inspector General-Appropriation	**11,464**	**15,511**	**3,547**
Inspector General Availability	**12,458**	**15,011**	**3,053**
Total SBA Appropriations	**$ 918,514**	**$798,253**	**($120,261)**
Total SBA Availability	**$1,122,700**	**$841,245**	**($281,455)**

SALARIES AND EXPENSES

For necessary expenses, not otherwise provided for, of the Small Business Administration as authorized by Public Law 106–554, including hire of passenger motor vehicles as authorized by 31 U.S.C. 1343 and 1344, and not to exceed $3,500 for official reception and representation expenses, ***$362,106,000****: Provided, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan servicing activities: Provided further, That, notwithstanding 31 U.S.C. 3302, revenues received from all such activities shall be credited to this account, to be available for carrying out these purposes without further appropriations: Provided further, That* **$88,000,000** *shall be available to fund grants for performance in fiscal year* ***2003*** *or fiscal year* ***2004*** *as authorized by section 21 of the Small Business Act, as amended. In addition to amounts otherwise available from collections, 5 percent of such collections, not to exceed $3,000,000, for qualified expenses of delinquent non-tax debt collection.*

Salaries and Expenses Appropriation:

The Salaries and Expenses (S&E) appropriation provides funding for non-credit programs and initiatives and for costs incurred by Headquarters and field staff in the administration and operation of SBA programs. Non-credit programs and initiatives include all SBA business assistance programs not related to loans, such as procurement assistance and business development assistance for women, minorities, and veterans and service-disabled veterans. They also include management and information technology initiatives that improve SBA's operations. Funding for administration and operation (hereafter referred to as the operating budget) pays for on-going personnel and support costs, including costs to support the administration and management of the non-credit programs. As such, the S&E account is instrumental in the achievement of SBA's performance goals to help small businesses succeed, assist disaster victims, and improve overall SBA management.

The FY 2003 President's Budget requests $362.1 million in new budget authority for the S&E appropriation, an increase of $23.6 million from the FY 2002 appropriated level. Of this amount, $144.3 million is for non-credit programs (a reduction of $32.7 million from the FY 2002 appropriation). For the operating budget, including fee income and transfers from the Business Loan appropriation and the Disaster Assistance appropriation for administrative expenses pursuant to the Federal Credit Reform Act of 1990, the request will provide $364.5 million in total resources (an increase of $61.1 million over FY 2002). A summary of the President's Request for Salaries and Expenses follows:

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Salaries and Expenses:				
New Budget Authority	$440,635	$338,476	$362,106	$ 23,630
Transfer from Business Loans Program	129,216	129,130	134,030	4,900
Transfer from Disaster Loans Program	14,754	9,854	9,854	0
Transfers from Other Agencies	3,737	899	1,500	601
Offsetting Collections – Fees	3,348	3,000	3,000	0
Estimated Gainsharing	3,000	0	3,000	3,000
Carryover from Prior Fiscal Year	2,791	36,644	0	(36,644)
Recoveries	1,563	0	0	0
Returned to Treasury	(608)	0	0	0
Transfer to Other Accounts	(309)	0	0	0
Carryover into Next Fiscal Year	(36,644)	0	0	0
Rescinded Funds	(30,895)	0	0	0
Balance Expired	(2,408)	0	0	0
Total Salaries and Expenses	**$528,180**	**$518,003**	**$513,490**	**($4,513)**

Non-Credit Programs and Initiatives ($144.3 million)

The FY 2003 request includes $144.3 million for non-credit programs and initiatives. Of this amount, $88 million is for the Small Business Development Centers to provide long-term counseling and training to small businesses throughout the country. The remaining funds will allow SBA to provide outreach and technical assistance to small businesses, especially women, veterans, and minorities, through programs such as 7(j), Microloan technical assistance, Women's Business Centers, and Veteran's Business Assistance. Other non-credit programs such as HUBZone Empowerment Contracting provide an advocate for small businesses in the government contracting area.

Operating Budget ($364.5 million)

The total authority requested for SBA's operating budget is $364.5 million, an increase of $61.1 million from the FY 2002 enacted level. The FY 2002 appropriation did not sufficiently fund SBA's current services operating needs, causing employment levels to further decline and significant reductions in on-going activities and support services. The increase proposed will re-establish a sufficient level of resources to support current operations, including the maintenance of the FY 2002 yearend staffing level. The increase is primarily for the pension cost of SBA employees previously funded through OPM ($13.9 million), the general salary pay raises of 3.6 percent in January 2003 ($12.8 million), and for mandatory rate increases in rents, and other services that are passed directly to SBA by the General Services Administration, United States Postal Service (USPS) ($8.5 million). In addition to funding on-going program administration and support, the operating budget account funds management and information technology initiatives to help transform SBA's workforce and modernize its infrastructure. The $23.6 million increase is requested to upgrade systems, implement risk management techniques, improve internal controls, transition the workforce, and update technology infrastructure to help meet SBA's long-term goals; $1.5 million is for the asset sales program financial advisor; and $850,000 is for program evaluations.

The operating budget portion of the S&E appropriation funds five major types of costs: Program Support, Field Operations, Executive Direction, Management and Administration, and Agency-wide Costs. It does not include funding for disaster assistance direct expenses; these are covered under the Disaster Loan Appropriation. Descriptions of these major components of the operating budget follow.

Program Support ($54.2 million)

Funding for program support activities covers the costs of providing government contracting assistance, business development assistance, training and outreach activities, and capital access programs. Most administrative expenses for non-credit programs are included in this group.

Funding requirements reflect the needs of Headquarters offices as well as servicing centers that process loan guarantees and service SBA's portfolio.

Field Offices ($150.4 million)

Funding for field offices covers the cost of operating 10 regional, 70 district, and multiple branch offices throughout the United States and Puerto Rico. The regional, district, and branch offices are the locations where SBA personnel interact with customers and deliver SBA's programs and activities to the Nation's 25 million small business customers.

Executive Direction ($34.4 million)

Executive Direction offices are responsible for administratively supporting SBA's program offices. Requirements include policy analysis and support, financial management, legal representation, hearings and appeals, equal employment opportunity/civil rights compliance, congressional and public interface, marketing to SBA's constituency, and advocating the small business community within the governmental process. An estimate of the cost of Executive Direction is provided in the Performance Indicators and Resources Requested section of each goal.

Management and Administration ($38.4 million)

Management and Administration offices are responsible for the formulation and execution of policies and procedures that maximize the utilization of SBA's primary internal resources, including human resources, information technology, and administrative services. An estimate of the cost of Management and Administration is provided in the Performance Indicators and Resources Requested section of each goal.

Agency-wide Costs ($87.0 million)

Agency-wide costs comprise fixed expenses that the Agency must incur to support the annual level of program funding. These costs include telecommunications, postage, rent, worker's compensation, centralized training, in-house printing, transit benefits subsidy, and reasonable accommodation expenses. Estimates for Agency-wide costs are provided in the Performance Indicators and Resources Requested section of each goal. This category also includes a majority of the IT and modernization initiatives indicated above. This includes $13.9 million for pension costs previously funded by the Office of Personnel Management.

BUSINESS LOANS PROGRAM ACCOUNT

For the cost of direct loans, ***$3,726,000*** *to be available until expended; and for the cost of guaranteed loans,* ***$85,360,000*** *as authorized by 15 U.S.C. 631 note, of which $45,000,000 shall remain available until September 30, 2004: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: Provided further, That during fiscal year 2003 commitments to guarantee loans under section 503 of the Small Business Investment Act of 1958, as amended, shall not exceed $4,500,000,000, as provided under section 20(h)(1)(B)(ii) of the Small Business Act: Provided further, That during fiscal year 2003 commitments to guarantee loans for debentures and participating securities under section 303(b) of the Small Business Investment Act of 1958, as amended, shall not exceed the levels established by section 20(i)(1)(C) of the Small Business Act.*

In addition, for administrative expenses to carry out the direct and guaranteed loan programs, $133,769,000, which may be transferred to and merged with the appropriations for Salaries and Expenses. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002); additional authorizing legislation required.

Business Loan Program Appropriation

The Business Loan Program appropriation includes the funds to cover the taxpayer's cost of providing direct and guaranteed loans to new and existing small businesses throughout the United States. Financing to small businesses is made either directly or in cooperation with banks or other financial institutions through agreements to participate on a deferred (guaranteed) basis, or through approved Microloan intermediaries. Through its business loan programs, SBA provides capital, credit and equity assistance to help develop and strengthen America's small businesses and contribute to the country's economy.

As required by the Federal Credit Reform Act of 1990 (FCRA), the Business Loans program account includes the subsidy costs associated with direct loans obligated and loan guaranties committed in the fiscal year in question.

The Business Loans program account also includes administrative expenses associated with the delivery of business loan programs. Subsidy amounts are estimated on a present value basis, and administrative expenses are estimated on a cash basis. Funds for administrative expenses are appropriated to this account and then transferred to the Salaries and Expenses account to be obligated and outlayed in that account.

The FY 2003 budget requests $3.7 million for the subsidy costs associated with microloan direct loans, $85.4 for the subsidy costs associated with 7(a) guaranteed loans, supporting and a total program level of $16.4 billion in "net" loan approvals to small businesses during FY 2003. These approvals include the effect of loan increases, decreases, and cancellations. The balance of the programs within this account do not require an appropriation due to the sufficiency of various fees resulting in no subsidy cost to the government. In addition to credit subsidy costs, the budget requests $133.8 million for administrative expenses to be transferred to the Salaries and Expenses account. This amount includes $4.8 million for pension costs previously funded by the Office of Personnel Management.

Business Loans Program Appropriation

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
New Budget Authority				
Section 7(a) Guaranty	$114,960	$153,000	$85,360	($67,640)
Section 7(a) Guaranty - DELTA	0	0	0	0
Y2K Loans[1]	0	0	0	0
Section 504 CDC Guaranty	0	0	0	0
Section 504 CDC Guaranty - DELTA	0	0	0	0
Microloan - Direct	2,250	1,860	3,726	1,866
Microloan - Guaranty	0	0	0	0
New Market Venture Capital	22,000	0	0	0
SBIC - Participating Securities	26,200	0	0	0
SBIC - Debentures	0	0	0	0
Rescinded Funds - Appropriation	(364)	0	0	0
Subtotal - Loan Programs	165,046	154,860	89,086	(65,774)
Administrative Expense				
New Budget Authority	129,000	129,000	133,769	4,769
Rescinded Funds - Appropriation	(284)	0	0	0
Subtotal – Administrative Expense	128,716	129,000	133,769	4,769
Total New Budget Authority	**$293,762**	**$283,860**	**$222,855**	**($61,005)**
Business Loans - Summary				
Program Level	$14,019,430	$24,545,542	$16,401,053	($8,144,489)
New Appropriation	$294,410	$283,860	$222,855	($61,005)
Carryover from Prior Fiscal Year	24,719	54,399	4,342	(50,057)
Carryover into Next Fiscal Year	(54,399)	(4,342)	(3,850)	492
Transfer to Other Accounts	(129,216)	(129,130)	(134,030)	(4,900)
Recoveries	1,242	0	0	0
Balance Expired	0	0	0	0
Transfer from Other Accounts	1,100	0	0	0
Rescinded Funds - Appropriation	(648)	(5,500)	0	5,500
Subsidy Budget Authority	$137,208	$199,287	$89,317	($109,970)

[1] Program authority expired 12/31/00.

Section 7(A) Loan Guaranty Program

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Regular Program Level	$9,121,709	$9,352,804	$4,850,000	($8,993,822)
Emergency Program Level	0	4,491,018	0	(4,491,018)
New Subsidy Appropriation	114,960	153,000	85,360	(67,640)
Carryover Balance - Beginning of Year	12,924	22,075	0	(22,075)
Recoveries	1,169	0	0	0
Carryover Balance - End of Year	(22,075)	0	0	0
Transfer from Other Accounts	0	0	0	0
Rescinded Funds - Appropriation	(253)	0	0	0
Subsidy Budget Authority	$106,724	$175,075	$85,360	($89,715)
Subsidy Rate[1]	1.17%	1.07% & 1.67%	1.76%	.69%

1. Subsidy rate for FY 2002 regular program = 1.07%; emergency program rate = 1.67%.

[1] FY 2001: The Authorization Bill included changes that lowered the rate to 1.16 percent effective December 21, 2000. The rate was 1.24 percent from October 1, 2000 to December 21, 2000.
FY 2002: Current Services rate is 1.07 percent. Passage of Defense Bill P.L. 107-117, increases rate to 1.67 percent for supplemental funds in response to September 11 events. For FY 2003, passage of P.L.107-100 changes fee structure and increases rate from .88 percent current services rate to 1.76 percent.

Section 7(A) Loan Guaranty Program (DELTA)

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Program Level	$1,711	$20,000	$20,000	$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance – Beginning of Year	4,511	4,479	2,133	(2,346)
Carryover Balance - End of Year	(4,479)	(2,133)	(1,831)	302
Rescinded Funds-Non Appropriated	0	(2,000)	0	2,000
Subsidy Budget Authority	$32	$346	$302	($44)
Subsidy Rate	1.87%	1.73%	1.51%	(.22%)

Section 504 Development Company Loan Program

(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Section 504/CDC Guarantees				
Program Level	$2,268,758	$4,500,000	$4,500,000	$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	0	0	0	0
Recoveries	0	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	0	0	0	0
Subsidy Rate[1]	0.00%	0.00%	0.00%	0
Section 504/CDC Guarantees (DELTA)				
Program Level	$0	$2,500	$2,500	$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	1,028	1,047	526	(521)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(1,037)	(526)	(504)	22
Rescinded Funds-Not Appropriated	0	(500)	0	500
Subsidy Budget Authority	$0	$21	$22	$ 1
Subsidy Rate	.89%	.84%	.88%	.04%

[1] No appropriation is required due to the annual adjustment of fees to maintain a 0 percent subsidy rate. For FY 2002, the fee will be lowered from 0.472 percent to 0.410 percent. For FY 2003, The current services rate of 0 percent with a fee increase from .410 percent to .425 percent.

Microloan Program
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Miroloan Direct				
Program Level	$29,810	$25,513	$26,553	$1,040
New Subsidy Appropriation	2,250	1,860	3,726	1,866
Carryover from Prior Year	198	0	0	0
Recoveries	0	0	0	0
Carryover into Next Year	0	0	0	0
Transfer to Salaries and Expenses[1]	0	(130)	(261)	(131)
Transfer from Other Accounts	225	0	0	0
Rescinded Funds - Appropriation	(5)	0	0	0
Subsidy Budget Authority	2,668	1,730	3,465	1,735
Subsidy Rate	8.95%	6.78%	13.05%	6.27%
Microloan Guaranty Loans				
Program Level	$2,000	$2,000	$2,000	$0
New Subsidy Appropriation	0	0	0	0
Carryover from Prior	2,604	2,445	782	(1,663)
Recoveries	0	0	0	0
Carryover into Next Year	(2,445)	(782)	(614)	168
Rescinded Funds-Not Appropriated	0	(1,500)	0	1,500
Subsidy Budget Authority	$159	$163	$168	$5
Subsidy Rate	7.95%	8.17%	8.42%	.25%

[1] By SBA statute, 7 percent of the annual appropriation may be transferred to Salaries and Expenses to provide training to Microloan intermediaries.

Small Business Investment Company Programs
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Participating Securities				
Program Level	$2,108,702	$3,500,000	$4,000,000	$500,000
New Subsidy Appropriation	26,200	0	0	0
Carryover Balance - Beginning of Year	1,928	0	0	0
Recoveries	54	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer from Others	0	0	0	0
Rescinded Funds – Appropriation	(58)	0	0	0
Transfer to Others	(500)	0	0	0
Subsidy Budget Authority	27,624	0	0	0
Subsidy Rate[1]	1.31%	0.00%	0.00%	0
SBIC – Debentures				
Program Level	$486,714	$2,500,000	$3,000,000	$500,000
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	1,526	2,401	901	(1,500)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(2,401)	(901)	0	901
Transferred from Others	875	0	0	0
Balance Expiring	0	0	0	0
Rescinded-Not Appropriated	0	(1,500)	0	1,500
Subsidy Budget Authority	$ 0	$ 0	$ 0	$ 0
Subsidy Rate[2]	0.00%	0.00%	0.00%	0.00%

[1] FY 2002 assumes proposed fee change from 1.0 percent to 1.376 percent resulting in a 0 percent subsidy rate. FY 2003 lowers fee to 1.311 percent to retain 0 percent subsidy.
[2] No appropriation is required due to the annual adjustment of fees to maintain a 0 percent subsidy rate. For FY 2002, the fee will be lowered from 0.88 percent to 0.866. For FY 2003, the fee will be raised from .866 percent to .887 percent.

New Markets Venture Capital Program
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Program Level	$0	$151,707	$0	($151,707)
New Subsidy Appropriation	22,000	0	0	0
Carryover Balance - Beginning of Year	0	21,952	0	(21,952)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(21,952)	0	0	0
Transfer to Other Accounts	0	0	0	0
Rescinded Funds - Appropriation	(48)	0	0	0
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	$ 0	$ 21,952	$ 0	($21,952)
Subsidy Rate	14.44%	14.47%	15.46%	

SURETY BOND GUARANTEES REVOLVING FUND

No appropriation language is requested for FY 2003

Surety Bond Guaranty Revolving Fund Appropriation

(Dollars in thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Surety Guarantees	$248,902	$1,672,000	$1,672,000	$0
Total Budget Authority	$ 0	$ 0	$ 0	$ 0
Total Obligation				
Adjustments to Obligations				
Offsetting collections				
Appropriation	$ 0	$ 0	$ 0	$ 0

DISASTER LOANS PROGRAM ACCOUNT

For the cost of direct loans authorized by section 7(b) of the Small Business Act, as amended, $87,360,000, ***$76,140,000*** *to remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended.*

For administrative expenses to carry out the direct loan program, $122,354,000 ***$122,141,000*** *which may be transferred to and merged with appropriations for Salaries and Expenses, of which $500,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General; of which $112,000,000* ***$112,000,000*** *is for direct administrative expenses of loan making and servicing to carry out the direct loan program; and of which $9,854,000 is for indirect administrative expenses: Provided, That any amount in excess of $9,854,000 to be transferred to and merged with appropriations for Salaries and Expenses for indirect administrative expenses shall be treated as a reprogramming of funds under section 605 of this Act and shall not be available for obligation or expenditure except in compliance with the procedures set forth in that section. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002.)*

The FY 2003 budget requests $76.1 million in appropriations, coupled with $25.0 million carried-forward from FY 2002, plus $10.0 million in new recoveries to support $795 million in loans (the five-year average). In addition, an administrative appropriation of $118.4 million is requested to support direct and indirect loan making and direct loan servicing expenses.

Disaster Loan Program
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Disaster Loans Program				
Direct Loan Subsidy	$76,140	$87,360	$76,140	($11,220)
Supplemental, Contingencies	60,000	75,000	0	(75,000)
Total Budget Authority	$136,140	$162,360	$76,140	($86,220)
Loan Program Budget Authority				
New Budget Authority	$76,140	$87,360	$76,140	($11,220)
Supplemental, Contingencies	60,000	75,000	0	(75,000)
Carryover from Prior Fiscal Year	96,231	90,607	25,000	(65,607)
Recoveries	11,008	10,000	10,000	0
Carryover into Next Fiscal Year	(90,607)	(25,000)	0	25,000
Transfer to Administrative Expense	0	0	0	0
Rescinded Funds Appropriated	(168)	0	0	0
Subtotal - Disaster Loans Program	$152,604	$237,967	$111,140	($126,827)
Subsidy Rate	14.746%	14.67%[1]	13.98%	(.69%)
Program Level	$874,021	$1,299,756[2]	$794,993	($314,053)
Disaster Loans Program – Administration				
New Budget Authority	$108,354	$122,354	$122,141	($213)
Supplemental, Contingencies	40,000	0	0	0
Carryover from Prior Fiscal Year	27,307	42,989	0	(42,989)
Transfer from Loan Subsidy & others	387	0	0	0
Recoveries	0	0	0	0
Carryover into Next Fiscal Year	(42,989)	0	0	0
Transfer to Salaries and Expenses	(14,754)	(9,854)	(9,854)	0
Transfer to Inspector General	(500)	(500)	(500)	0
Rescinded Funds Appropriated	(596)	0	0	0
Total - Disaster Administration	$117,209	$154,989	$111,787	($43,202)
Disaster Loan Making	$88,190	$124,933	$81,093	($43,840)
Disaster Loan Servicing	29,019	30,056	30,694	638
Total	$117,209	$154,989	$111,787	($43,202)

[1] FY 2002 Current services rate is 14.67 percent. With passage of Defense Bill and supplemental, rate increases to 23.16 percent for impacted loans.
[2] Program level for regular disaster program is $742.8 million; for the "emergency" disaster program, it is $557 million.

Disaster Loan Making
Summary of Requirements By Object Class
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Personnel Compensation	$37,135	$64,852	$38,785	($26,067)
Overtime and Awards	9,811	10,179	6,355	(3,824)
Civilian Personnel Benefits	9,245	16,145	12,749	(3,396)
Workers/Unempl Compensation	1,432	1,853	1,157	(696)
Travel	16,241	16,728	12,241	(4,488)
Transportation of Things	47	67	42	(25)
Rental Payments to GSA	4,295	4,497	4,632	135
Rental Payments to Others	82	116	72	(44)
Communications, Utilities	1,432	1,475	1,253	(222)
Postage	644	913	570	(343)
Printing and Reproduction	33	47	35	(12)
Other Services	6,254	6,474	2,212	(4,263)
Supplies and Materials	4	6	4	(2)
Equipment	1,529	1,575	984	(592)
Penalties	5	6	4	(2)
Total Obligations	**$88,190**	**$124,933**	**$81,093**	**($43,840)**
Total Positions	**1,106**	**1,862**	**1,078**	**(784)**

Disaster Loan Servicing
Summary of Requirements by Object Class
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Personnel Compensation	$10,594	$10,992	$11,363	($371)
Overtime and Awards	273	283	292	10
Civilian Personnel Benefits	3,145	3,263	4,067	804
Workers/Unempl Compensation	36	188	194	6
Travel	34	35	36	1
Transportation of Things	16	17	17	0
Rental Payments to GSA	2,860	2,991	3,081	90
Rental Payments to Others	0	0	0	0
Communications and Utilities	421	434	447	13
Postage	1,621	1,670	1,720	50
Printing and Reproduction	0	0	0	0
Other Services	9,885	10,046	9,336	(711)
Supplies and Materials	15	16	16	0
Equipment	111	114	117	3
Penalties	8	8	8	0
Total Obligations	**$29,019**	**$30,056**	**$30,694**	**$638**
Total Positions	**222**	**222**	**222**	**0**

Office of the Inspector General

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended (5U.S.C. App.), $15,011,000. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002;) additional authorizing legislation required.

Office of Inspector General Appropriation:

The Office of Inspector General (OIG) appropriation provides funding for costs incurred by Headquarters and field staff in the administration and operation of their programs. The FY 2003 President's Budget requests $15.0 million in new budget authority for OIG appropriation, an increase of $3.5 million from the FY 2002 appropriated level. $500,000 of this increase is for employee pension costs previously paid by the Office of Personnel Management. Additional justification for the remaining increase is contained in the section on the Office of Inspector General. A summary of the President's Request for the OIG is as follows:

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Salaries and Expenses:				
New Budget Authority	$11,953	$11,464	$15,011	$ 3,547
Transfer from Disaster Loans Program	500	500	500	0
Carryover from Prior Fiscal Year	515	494	0	(494)
Recoveries	2	0	0	0
Carryover into Next Fiscal Year	(494)	0	0	0
Rescinded Funds	(26)	0	0	0
Balance Expired	(82)	0	0	0
Total IG	**$12,368**	**$12,458**	**$15,511**	**$3,053**

APPENDICES

Office of Inspector General Management Challenges

The OIG report discusses a total of 83 actions to address then management challenges in the Agency. These actions are categorized as (1) implemented, (2) progress being made, and (3) not implemented/no substantial progress. This section includes the OIG's summary of the management challenges and actions taken. Under each challenge, SBA identifies proposed actions to address the OIG's actions categorized as (3) not implemented/no substantial progress. For more information see Office of Inspector report, FY 2002 Agency Management Challenges (No. 2-02).

Challenge 1. SBA needs to improve its managing for results processes and performance data.

Summary SBA needs to develop effective outcome measures, ensure that its performance data are accurate and reliable, and establish systems to manage for results. The Agency has taken steps to identify additional program outcomes, improve performance measures, and increase the accuracy of its data. SBA still needs to secure Agency support for guidance issued in July 2001 for preparing more effective performance goals and indicators, and ensuring that standards and procedures for data verification, validation, client surveys, and other methods to obtain outcome information are fully implemented.

Action Taken

- The Agency published Guidelines for Performance Indicators and Data Quality on July 20, 2001. The guidance provides SBA program managers with a context and logical framework for developing useful performance goals and measures. The guidance discusses the balanced score card and the importance of addressing the cost of delivering services.

- SBA has issued the final guidance on how to count clients served and client counseling and training sessions. In another effort, the University of Michigan surveyed clients of the Service Corps of Retired Executives, and Women's Business Centers, while Business Information Centers have conducted their own annual client survey.

- The Office of Disaster Assistance has developed a standard definition of effective field presence and issued this guidance to field staff to ensure consistent application.

- SBA has indicated it has conducted risk assessment sessions using the COSO internal control framework throughout SBA and that all offices have completed the internal control checklist and other assessment efforts.

Actions to be Taken

- Produce Strategic Plan in FY 2002 for the FY 2003- FY 2007 period.

- Conduct training on performance measurement, development of indicators, and data quality to middle and senior personnel to be completed during FY 2002.

Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems.

Summary SBA implemented the Joint Accounting and Administrative Management System (JAAMS) on October 9, 2001. JAAMS is a software acquisition project intended to improve SBA's financial management systems. The previous accounting and financial management system used by SBA was becoming obsolete, and the service provider was planning to shut down the system. SBA had plans to modernize and update its loan information system–Loan Monitoring System (LMS). LMS was initially planned to include a new loan financial tracking system as a replacement to SBA's Loan Accounting System, as well as a loan monitoring, portfolio analysis, and lender oversight system. LMS is on hold awaiting decisions on its future. SBA has made some progress, but needs to formulate and implement sound procedures for system development and software acquisition for all its systems under development.

Action Taken

- SBA has taken steps to strengthen and institutionalize its "Information Technology (IT) Planning and Investment Control Process," to improve selection and control of IT projects in a portfolio environment, and to improve formulation of the IT budget. This should help the Agency meet the requirements of the Clinger-Cohen Information Technology Management Reform Act.

- To address past criticisms and help support its strategic goals, OCIO recently developed and has started implementing SDM. SDM is a set of procedures and quality controls intended to reduce risks in the development of new information systems and ensure that new systems function as intended by owners and stakeholders. SDM needs to be codified in an SBA SOP.

- The Agency has completed an IT architecture document and established procedures for its maintenance. The IT architecture document needs to be codified in an SBA SOP.

- SBA has developed configuration management procedures. However, these procedures need to be codified in an SBA SOP.

Actions to be Taken

- Institutionalize and enforce agency-wide use of SBA's Systems Development Methodology (SDM) implemented by end of FY 2003.

- Define procedures for proper evaluation of prototype software and documentation before the prototypes will be implemented by end of FY 2003.

Challenge 3. Information systems security needs improvement.

Summary SBA operations depend heavily on the Agency's information systems, and the security of those systems is critical. The Agency has made a substantial commitment of resources for enhancing computer security, providing technical staff support, and developing security training. SBA needs to fully implement its Agencywide systems security program to include assessing risks, establishing and updating policies and controls, promoting awareness, and evaluating security effectiveness.

Action Taken

- Eliminated the "Material Weakness" finding in computer security in FY 2001.
- Committed over $1.2 million in personnel and contract support to enhance the Agency's computer security program.
- Issued an updated computer security policy document that incorporated security policies covering the latest Agency technology, including client servers, e-mail, and the Internet.
- Documented the computer security program and produced guidance documents and templates for the performance of computer security functions within the Agency.
- Completed Certification and Accreditation reviews for 38 of the most sensitive systems.
- Developed a security training program.
- Continued work on developing critical infrastructure protection and security plans required by PDDs 63 and 67.

Actions to be Taken

- The CIO will complete a formalized management control process to act on risks identified from risk assessments including a schedule to correct identified deficiencies, dates for completion, and funding requirements by end of FY 2002.
- The CIO will develop a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems by end of FY 2002.

Challenge 4. Maximizing program performance requires that SBA fully develop and implement its human capital management strategies.

Summary The nature and scope of SBA's work has changed significantly, requiring a different set of skills in the Agency's workforce. SBA has begun to take the steps necessary to better manage its human capital activities, but needs to do more. The Agency must define what the

future SBA will look like. The Office of Human Resources, in partnership with the program and district offices, should then develop a comprehensive human capital strategy that will identify SBA's current and future human capital needs, including the size of the workforce and skill gaps; its deployment across the organization; the knowledge, skills, and abilities needed for the Agency to pursue its missions; and an effective succession planning process.

Action Taken

- SBA has indicated that it will establish a steering committee "to reposition the Agency to allow it to be more responsive to its target market."

- Completed a workload and staffing analysis of Headquarters.

- Developed competency models for Marketing & Outreach Specialists, Public Information Officers, Lender Oversight and Business Development, and adopted a leadership competency model. With the exception of Business Development, training has begun with the other competencies. A draft program for procurement occupations has been developed.

- To estimate the number of employees in need of skills training, and based on projections that shifts in SBA's human capital needs will likely result in a need for fewer employees, but more personnel with new technology skills, SBA is using: (a) "gap analysis" to compare the skill sets that SBA employees currently possess to the competency models developed; (b) interviews with Associate Deputy Administrators regarding their vision for the future of their organizations; and (c) surveys such as the FY 2000 Agencywide training assessment survey.

- Initiated two developmental programs for succession planning: the Senior Executive Service Candidate Development Program (SESCDP) and the District Director Candidate Development Program. The SESCDP is currently on hold.

- Continued to monitor the developmental progress of the 1998 Presidential Management Interns (PMI), most of whom have graduated, and hired a PMI for the Office of Capital Access.

- Shifted the training focus slightly from emerging functions to fundamental skills training, such as the core skills for carrying out the Agency's mission—business basics and leadership.

- More than 135 senior managers and 165 mid-level managers have received leadership training thus far.

- SBA offers courses in Practical Personnel Solutions for managing human resources; business basics courses in Commercial Credit Analysis, Advanced Commercial Credit Analysis, Resolution of Problem Commercial Credits, Advanced Resolution of Problem Commercial

Credits, Train the Trainer, and Marketing and Outreach; and courses for SBDC Project Officers and Contracting Officers Technical Representatives.

- In the area of personnel and administrative basics, training is being offered for Administrative Officers and in retirement planning.

- SBA is in the process of developing technology-based training systems to enhance the delivery of skills training using "on-demand," web-based delivery. With sufficient funding, SBA plans to use distance learning techniques.

Actions to be Taken

- Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that is linked to SBA's strategic goals, includes major human capital objectives, identifies the milestones and resources needed to implement the strategy, and establishes results-oriented performance measures for human capital objectives in FY 2002.

- Develop a comprehensive succession planning process and plan in FY 2002.

- Develop a recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs identified by the Agency in FY 2002.

Challenge 5. SBA needs better controls over the business loan purchase process.

Summary OIG audits have shown that SBA field offices do not consistently follow Agency requirements when purchasing guarantees from lenders after loan defaults, resulting in purchases that may not be justified and unnecessary expenditures for the Agency. In response to this concern, SBA reports that it has instituted a guaranty purchase review (GPR) process, implemented a guaranty repair tracking system, established an early warning system, and is in the process of improving procedures and training. The Agency needs to ensure that the guaranty is denied or reduced when a lender fails to comply with SBA requirements by continuing to update and implement changes to improve the guaranty purchase process based on the results of the guaranty purchase reviews. Responsibility for taking actions to improve the purchase process is shared by the Office of Financial Assistance (OFA) and the Office of Field Operations (OFO) with the assistance of the Office of General Counsel.

Action Taken

- The GPR was instituted in FY 2000 as a means to improve the guaranty purchase process. Since GPR's initiation, SBA has reviewed approximately 300 guaranty loan purchase decisions in FYs 2000 and 2001. Of the 300 loans reviewed, 48 purchase decisions were questioned and forwarded to OFA for final determination on whether OFA agrees with the GPR teams or the field offices.

Actions to be Taken

- SBA is complying with OMB circular A-11, section 11. SBA has estimated the level of improper payments for the 7(a) loan portfolio and the SBIC program. SBA will develop estimates of improper payments for the 504 loan program by the Fall of FY 2002.

- SBA will establish goals for reducing improper guaranty purchases by end of FY 2002.

- SBA will improve guidance and provide training for documentation needed to make purcha: decisions by end of FY 2002 including developing a system for sharing information among field offices.

Challenge 6. SBA needs to continue improving lender oversight.

Summary An effective lender oversight program is critical for ensuring lender activities serve Agency objectives and comply with all rules and procedures. The Agency established an Offic(of Lender Oversight (OLO); completed the third-cycle Preferred Lender Program (PLP) reviews; started the fourth-cycle of PLP reviews, initiated reviews of selected non-PLP lenders; completed the third cycle of safety and soundness examinations of the non-depository Small Business Lending Companies (SBLC); and implemented a review process that ensures all lenders are reviewed periodically and consistently. Congress stopped additional funding and froze existing funds available for the development of a loan monitoring system because of significant changes in scope and dramatic cost increases in the systems modernization initiative. To have an effective oversight program, the Agency needs to develop and implement the loan monitoring system.

Actions Taken

- The Agency has made some progress toward implementing an effective oversight program, and additional improvements are in process. However, significant improvements need to be made to ensure consistent and appropriate oversight of SBA's lending partners and to assess risk in SBA's portfolio. We used the Federal internal control model to assess the progress made and to determine whether additional improvements are needed for the three most significant credit programs. Our review showed progress in the areas of risk identification and communications, and mixed results in the areas of control environment, policies and procedures, and monitoring.

Actions to be Taken

- Update and revise OLO Strategic Plan incorporating specific provisions and related implementation plans for issues raised by the IG in the area of 7(a) and 504 lenders and SBICs. Among other things, the plan will address risk identification, communications, the control environment, policies and procedures, and monitoring. (September 30, 2002)

- Redesign, test and implement a lender review process for 7(a) and 504 lenders that considers operational, financial and compliance risk. (September 30, 2003)

- Conduct studies of SBA's loan programs to identify drivers of performance and other risk characteristics. (Timing dependent upon implementation of lender oversight/risk management characteristics of LMS.)

Challenge 7. More participating companies need access to business development and contracts in the Section 8(a) Business Development program.

Summary The Agency needs to give greater emphasis to business development assistance and ensure a more equitable distribution of contracting opportunities to program participants. The bulk of the dollar value of Section 8(a) Business Development (BD) contracts goes to a relatively small number of companies in the program.

Action Taken

- Management has drafted a proposal to redesign the Section 8(a) BD Program. It is waiting the Administrator's review. According to program officials, it will refocus the Section 8(a) BD Program's efforts and resources on business development activities and will coordinate the delivery of other SBA counseling, training, and technical assistance services to Section 8(a) BD participants.

Actions to be Taken

- Assign senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy to develop a plan to refocus the program by September 30, 2002.

- The above plan will address criteria for "business success".

- The above plan will address program graduation criteria.

- The above plan will address the business development assistance provided to firms.

Challenge 8. SBA needs clearer standards to determine economic disadvantage.

Summary New standards for determining economic disadvantage should be established to effectively measure diminished capital and credit opportunities–the definition included in the law. The Agency should (1) redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities; and (2) provide sufficient training to SBA staff responsible for evaluating companies.

Action Taken

- Management has agreed to develop appropriate guidance for SBA employees. This guidance will require a more in-depth review of economic disadvantage factors for Section 8(a) BD owners once certain conditions are met and detail what must be reviewed in these instances.

In developing this guidance, Agency officials will determine whether SBA will need to seek statutory changes to ensure that SBA can effectively determine economic disadvantage. The Deputy Associate Deputy Administrator for Government Contracting/Business Development stated that by March 31, 2002, the guidance should be issued and the decision made whether to seek statutory changes that may be deemed to be required.

Actions to be Taken

- Senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy will develop a plan to address economic disadvantage to be completed by March 31, 2002.

- The above plan, which will address training, will be implemented by January 31, 2003.

Challenge 9. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.

Summary SBA's rules, while restricting the amount of a contract that a Section 8(a) Business Development (BD) firm may pass through to a non-Section 8(a) firm, allow many non-participating companies to receive substantial financial benefit. SBA intends to include value-added resellers as a legitimate industry under the North American Industry Classification System. SBA needs to tighten the definition of "manufacturing" to preclude the pass-through practice of making only minor modifications to the products of other manufacturers.

Actions Taken

- The Office of Government Contracting/Business Development (GC/BD) has put into clearance a proposed rule to establish an industry category and size standard for Information Technology (IT) Value Added Resellers. This action will ensure that small businesses supplying IT products to the Federal Government as nonmanufacturers will perform significant value added services of at least 15 percent of total contract value or supply the product of a small manufacturer. Implementation of this rule will not tighten the definition of "manufacturing," but will allow nonmanufacturing companies to be classified as Value Added Resellers.

- Additionally, GC/BD has agreed to review the existing regulations and minimize the subjectivity in the manufacturing criteria.

Action to be Taken

- The Office of GC/BD has developed and will propose for comment a rule to establish a size standard for Information Technology Value Added Resellers. This will be published in the Federal Register by September 30, 2002.

Challenge 10. Preventing loan fraud requires additional measures, including new regulations and funding.

Summary OIG studies have demonstrated that fraud in the business loan program could be reduced by obtaining criminal background information on prospective borrowers and on loan packagers and other for-fee agents. Specific statutory authority exists to perform background checks on prospective borrowers. OIG believes that the statutory framework already exists for SBA to require background checks of loan packagers and other for-fee agents.

Actions Taken

- In FY 2001, SBA submitted a legislative proposal specifically to authorize criminal background checks of loan agents; require loan agents and prospective borrowers to provide personal identifiers (including Social Security Numbers) needed by the National Crime Information Center (NCIC) database operated by the FBI; and mandate the use of the NCIC. The Senate Small Business Committee voted to include the proposal in SBA's Reauthorization Bill for FY 2001. The conference committee, however, adopted the House version that did not contain the proposal.

- SBA continues to work on establishing a loan agent tracking system that is tied to the development of a Partner Information Management System (PIMS). PIMS is to be incorporated into the Loan Monitoring System (LMS). The first phase of PIMS was completed on June 30, 2000. SBA Form 159, which contains information on loan agents, was being revised to clarify the requirements for agents to notify SBA of their loan participation. In view of the need for new regulations, the form may need to be further revised to include additional loan agent identification data.

Action to be Taken

- SBA will implement tracking of loan agents within 6 months of receiving legally binding authority to collect SSNs on individual packagers and receipt of sufficient funds to cover computer system programming costs.

Data Validation and Verification

Managing for results and producing an annual performance plan and performance report require valid, reliable and high-quality performance measures and data. SBA faces many challenges in acquiring high-quality data, both output and outcome. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE, WBCs) and other Federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, the reporting capacity of quality data remain major issues for the Agency. Improving data quality will continue to be a high priority for SBA.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** SBA does this through assessing the relevancy of performance measures and data.

- **Fostering organizational commitment and capacity for data quality**. Achieving data quality through (1) *training* our managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality, and (2) managers *attesting* to the quality of the data under their management.

- **Assessing the quality of existing data**. Audits and reviews ensure the quality of our financial data systems. However, SBA must assess the quality of loan and program data provided by our resource partners. The Office of the Inspector General has carried out 5 performance measure reviews—7(a), SBIC, Surety Bond Guarantee, 8(a), and the Disaster Program. For example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done. SBA will include data verification in our lender and resource partner oversight.

- **Responding to data limitations**. It is not enough to identify data quality problems. Where there are data limitations, SBA must improve quality. Managers will be asked to document how they intend to reduce these limitations.

- **Building quality into the development of performance data**. The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules.

  In FY 1999, SBA tracked its performance goals monthly and verified the accuracy of the data on an *ad hoc* basis. As part of this internal performance monitoring, the agency tested the relevance of the indicators and identified problems of data completeness, timeliness, and accuracy.

In FY 2000, SBA began implementing a more formal quality process, which included program manager self-assessment of performance indicator quality, manager training in data quality control and improvement methods, development of data quality improvement plans, and feedback to program managers about data limitations determined through using the data. SBA completed the program manager self-assessment step in December 1999. Program managers were asked to:

- define the measure;
- identify the data source;
- discuss the validity of the measure;
- list data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that could not be collected (due to privacy or policy), and system capacity; and
- document steps being taken to improve data collection, verification and reporting, and to reduce data limitations.

In FY 2001, SBA developed guidelines on developing program indicators and ensuring data quality. SBA also developed better outcomes and included them in the budget/annual plan document.

For FY 2002, SBA will continue to train its managers to improve data quality, to ensure data quality through internal controls, and to improve data quality. Managers will be asked to provide data verification procedures and improvement plans, with milestones, after completion of the course. Feedback will be provided to managers regarding data limitations and data quality as part of SBA's use of the data in analyzing Agency activities, outputs, and outcomes and as part of the Inspector General's audits of data validity and verification.

In FY 2003, SBA will improve its data quality through increased use of statistical data sets.

The following pages provide for each performance indicator a definition, source, validity statement and discussion of limitations.

GOAL 1: CHAMPION SMALL BUSINESS INTERESTS

Measure	**Regulatory Cost Savings to Small Businesses**
Definition	Cost savings to Small Businesses because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Office of Advocacy estimates
Validation	Estimates of regulatory cost savings are difficult to make and require a number of assumptions. The Office of Advocacy believes their estimates to be valid.
Limitations	Estimates made using information gathered from various sources including agency data, Congressional Budget Office estimates, trade association and industry data.
Remedies for Limitations	Cross check against other regulatory savings estimates.
Verification	SBA has not independently verified this data.

Measure	**Share of Federal Procurement Prime Contract Dollars to Small firms, to Women-owned, Minority, Service Disabled Veteran-owned firms, and HUBZones-certified firms.**
Definition	This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars to be compared with the mandated share.
Source	The Federal Procurement Data System (FPDS) which is the official source for data on Federal procurements.
Validation	Congress establishes targets for the share of Federal procurement dollars that should reach the small business sector as well as specified subpopulations. The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure Federal contract dollars received by small businesses, women-owned, minority-owned, service disabled veteran-owned and HUBZone certified firms, rather then requiring agencies to provide this information on separate reports.
Limitations	Prime data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281. The final FPDS data are available about a year after the end of the fiscal year. The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies for Limitations	Through the electronic commerce committee PEC, GSA is re-engineering the FPDS to improve the accuracy and timeliness of information.
Verification	SBA does not separately verify the data obtained form FPDS system.The General Services Administration is responsible for working with the Agencies on the accuracy of the FPDS database. SBA has not independently verified this data.

GOAL 2: EMPOWER ENTREPRENEURS	
Measure	**Number of Start-up Firms Financed by 7(a) & 504**
Definition	Number of 7(a) & 504 approved loans to start-up firms.
Source	SBA Loan Approval Database (TTS001).
Validation	Start-up firms often have difficulty getting access to capital. The measure shows to what extent SBA is assisting start-up firms get capital and thereby the potential for survival and growth.
Limitations	The measure is based on the number of approved loans. A somewhat better measure would be disbursed loans.
Remedies for Limitations	Use disbursed loans.
Verification	The source of data is SBA's loan accounting database. The borrower indicates on the loan application forms if the firm is a start-up, a fact which is checked by the bank officer. SBA has not yet independently verified this data.
Measure	**Start-ups viable three years after getting loan**
Definition	Share of start-up firms receiving 7(a) loans in one fiscal year where the loan was current or paid in full at the end of the fiscal year three years later., i.e. for borrowers in FY 1995, the status at the end of FY 1998.
Source	SBA loan accounting database.
Validation	The assumption is that firms with loans current or paid in full may be considered economically viable. The loan database identifies loans to start-ups that are current, paid in full, delinquent or in default.
Limitations	The measure is an indirect measure based on the firm's performance of repaying the loan and does not measure actual performance.
Remedies for Limitations	Compare the loan performance data with actual viability as obtained through a random sample of start-up borrowers.
Verification	The data used are part of the loan accounting database and subject to the accounting verification procedures as to currency, paid in full or default status.
Measure	**Export Sales**
Definition	The total dollar volume of sales supported by export loans, export counseling, training, ETAP, trade mission and trade events.
Source	SBA's Office of International Trade records.
Validation	Export sales represent an economic stimulus to firms. The measure summarizes the increase in export sales achieved by SBA clients getting exporting assistance.
Limitations	Trade missions take time and result in an underestimate in sales.
Remedies for Limitations	Improve reporting process to ensure that most export sale increases achieved by SBA export assistance clients are captured.
Verification	A check is performed in Headquarters to ensure the identification and summation of export sale numbers are correct. SBA has not yet independently verified this data.

Measure	**8(a) Firms Viable Years after Graduation**
Definition	The percentage of 8(a) firms three years after graduation that are independently operated – that is not sold or have not gone out of business.
Source	SBA surveys of all graduated firms and Dunn and Bradstreet data on individual firms.
Validation	Survey results provide an estimate of the share of viable graduated firms.
Limitation	The success rate is based on survey results which depend on response rates. The response rate varies from year to year.
Remedies for Limitations	Ensure a high response rate and seek to use other sources such as the Bureau of Labor Statistics data on number of employees.
Verification	The determination of independently operated firms is checked against the Dun and Bradstreet data base to ensure accuracy.

Measure	**Jobs created by SBA borrowers, SBIC clients, and SBDCs**
Definition	Estimates of jobs created by SBA programs.
Source	Disbursed loans for 7(a) and 504 estimate from Loan Accounting data base. SBIC dollar financings from program data base. 7(a): Based on SBDC's annual economic impact report to SBA. It includes data on loan dollars obtained for clients and jobs created. Job coefficient is $32,382 that is an average of job coefficient numbers for 1999 and 2000 for SBDC clients that were assisted in getting loans. 504: Based on SBA's 504 program data on loan application of expected number of jobs created from disbursed loan funds. Job creation constant is $33,366 for loans made 1998-2000. In addition to jobs created 504 program contributes to jobs retained. SBIC: Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation constant of one job for $35,000 invested in 1999. SBDC: Impact information obtained on annual economic impact report submitted by SBDCs to SBA.
Validation	Capital infusion in a firm will most often lead to growth in jobs, sales and revenue. This measure focuses on the number of jobs created. By multiplying the dollar volume of loans by the job coefficient an estimate of jobs created is made.
Limitations	The SBDC data rely on data from a source not controlled by SBA, and is based on a loan portfolio where 30% of the loans are SBA guaranteed loans.
Remedies for Limitations	A project is under way with Bureau of Labor Statistics to obtain estimates of job creation by SBA loan recipients for firms that have EIN numbers.
Verification	Not possible until SBA has access to data from BLS or IRS.

GOAL 3: STREAMLINE DISASTER LENDING	
Measure	**Homes restored to pre-disaster conditions**
Definition	The home has been restored to pre-disaster condition.
Source	SBA inspection of home
Validation	The indicator is measures if the purpose of the financial assistance has been achieved.
Limitation	Does not cover disaster home loans made to replace, for example home furnishings.
Remedies for Limitation	Does not include all benefits derived from disaster home loan assistance.
Verification	Based on SBA inspection of homes. No other verification.
Measure	**Businesses restored to pre-disaster conditions**
Definition	Businesses that have received disaster loans and have same number of jobs as before disaster two years later.
Source	SBA disaster program loan data base.
Validation	Measures the extent to which firms receiving disaster business loans recover to the same level of economic activity as before the disaster in terms of having the same number of employees.
Limitation	The measure only looks at number of employees.
Verification	No verification is done.
Measure	**Customer satisfaction**
Definition	Satisfaction rate determined through SBA surveys to disaster victims who have received loans.
Source	SBA surveys.
Validation	It is important that recipients of government assistance feel that they have received fair, courteous and helpful assistance. This can in part be captured by determining how satisfied the clients where with the service received.
Limitation	The survey measures those who received disaster loans but does not include those who did not receive loans.
Remedies for Limitations	The survey will be expanded to include all applicants.
Verification	No verification is done.

Program Evaluation Plan

For the next several years, SBA plans to systematically review those programs that offer the most financial risk to the Government and also review those programs that can offer tips on how to improve its efforts.

FY 2002 Evaluations:

- Disaster Servicing. Evaluate the cost benefit of private-sector servicing of disaster loans.
- Balanced Scorecard. Develop a balanced scorecard for SBA's district offices, to include customer and employee satisfaction, financial results, and mission achievement.
- Customer Satisfaction. Continue implementation of customer satisfaction surveys for Entrepreneurial Development programs.
- Job Creation. Working with the Bureau of Labor Statistics databases, determine the number of jobs created by recipients of SBA financing assistance.
- ED Program Delivery Systems. Develop methodology for impact studies of the various distribution systems for management and technical assistance.
- Procurement Center Representatives. Evaluate the role of the PCRs and do a cost-benefit analysis of their contributions.
- Conduct and Evaluate District Office Pilots. These pilots will use the balanced scorecard approach to assess the value of such changes as changed goaling; waivers, such as where to locate offices and service centers; and improved IT support.
- Assess the Effectiveness of Government Contracting Programs.

FY 2003 Evaluations:

- Customer Satisfaction. Continue to measure customer satisfaction of Entrepreneurial Development programs.
- Job Creation. Working with the Bureau of Labor Statistics databases, determine the number of jobs created by recipients of SBA ED and Procurement programs.
- SBA *LowDoc*, SBA*Express* and *Microloans*. Assess the impact of these smaller loans.
- SBIC. Analyze SBIC venture capital financing success, describing customers, products and services, and growth rate of firms receiving capital.

- HUBZone. Conduct a HUBZone study to assess the changes in employment and investment in distressed urban and rural communities.

- ED Program Delivery Systems. Conduct impact studies of the various distribution systems for management and technical assistance.

- U.S. Export Assistance Centers. Conduct a cost-effectiveness study of the USEACs.

- Evaluate the 8(a) Program Results. Using BLS and Census databases, determine the number of jobs created and volume of sales of the 8(a) firms.

- Conduct and Evaluate District Office Pilots. These pilots will use the balanced scorecard approach to assess the value of such changes as changed goaling; waivers, such as where to locate offices, and service centers; and improved IT support.

OFFICE OF INSPECTOR GENERAL

VISION

Our vision is to improve the SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We will focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We will also provide a work environment in the Office of Inspector General (OIG) that is conducive to excellent performance by our employees.

To accomplish this vision, we will –

- Focus on significant, systemic issues drawn from the cumulative results of our reviews and cases.
- Enhance our expertise in SBA's major programs to help us identify priority issues and plan our reviews and casework.
- Become more proficient in the use of information technology, research methods, data analysis, and investigative techniques.
- Encourage creative thinking within our office and the development of synergistic teams that combine various disciplines.
- Achieve superior results by emphasizing corrective actions that will improve SBA operations, combat fraud, and eliminate program vulnerabilities.

OIG MISSION

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended (IG Act), the Inspector General is committed to supporting SBA in its statutory mission to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from disasters.

ANNUAL PLAN ALIGNMENT

With the Inspector General Act. OIG is an independent and objective oversight office created within the SBA by the IG Act of 1978. Inspectors General (IG) are principally charged with detecting fraud, waste, and mismanagement in agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness. OIGs also review existing and proposed legislation and regulations and make appropriate recommendations, and keep the Agency head and Congress informed.

The goals and objectives of the Strategic and Annual Plans reflect the IG's statutory mission. OIG implementation of the Government Performance and Results Act (GPRA) extends our commitment to a results-oriented Government. For many years, OIG has provided regular and frequent updates to customers and stakeholders on the monetary and non-monetary results of OIG reviews and investigations. OIG Annual Plans and Performance Reports will strengthen our commitment to performance-based management.

In 1953, the Congress created SBA to aid, counsel, assist, and protect the interests of small business concerns. The OIG's Strategic and Annual Plans reflect the OIG commitment to supporting SBA's purpose.

This plan serves as a bridge from our traditional planning process. The FY 2003 Annual Performance Plan continues to build on the three strategic goals and related supporting objectives found in the OIG FY 2001-2006 Strategic Plan. In addition, OIG has identified five major areas of emphasis in SBA –

- Financial Assistance
- Business Development
- Management
- Advocacy
- Disaster Assistance

OIG believes these to be the key SBA program areas and will therefore allocate OIG resources accordingly while taking into account OIG's five strategic foci (financial management, information systems and computer security, lender oversight, other select high-risk areas, and new Agency initiatives). The plan also places a high priority on responding to requests from SBA management and congressional committees and providing consultative assistance where appropriate.

In FY 2003, OIG will seek to work more effectively by adopting a broader multidisciplinary approach where appropriate, drawing on the expertise of OIG audit, evaluation, investigation, and legal staff. This should enable OIG to better assist SBA in identifying and mitigating emerging vulnerabilities as SBA modernizes and changes its business practices, work systems, and procedures.

Performance Measurement Limitations

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of our work. Nevertheless, the OIG measures are subject to a number of external factors. About 75 percent of our work is in response to referrals of suspected fraud, complaints, and requests for auditing and inspection services. Over a period of time, achievements can be projected based on historical performance. During a specific year, actual accomplishments may vary substantially from the norm.

In addition, the ultimate authority to implement OIG recommendations for program improvements rests with the Agency. OIG also cannot control the results of judicial or administrative proceedings. To mitigate these factors, OIG produces quality products and works closely with SBA's policy and program officials to stress the importance of OIG findings and encourage the implementation of OIG recommendations. Likewise we work closely with judicial and administrative officials. Within these parameters, OIG strives to improve the performance of SBA programs and operations and deter fraud and other forms of misconduct.

Data Collection and Validation

Quantitative data is collected and stored in OIG's management information system (MIS). Much of the quantitative data proposed has been collected for several years. For some of the measures, baselines were established in FY 2000; the remainder will be developed in FY 2002. Monetary results are reported at the time of management decision in accordance with OIG legislative requirements. SBA's Office of the Chief Financial Officer tracks actual collections. The management of each OIG division is responsible for collecting, verifying, and validating all data in the Annual Performance Report.

FY 2003 GOALS, OBJECTIVES, PERFORMANCE GOALS, AND RESOURCES

Goal 1: Improve the economy, efficiency, and effectiveness of programs and operations.

OIG audits, evaluates, and reviews all aspects of SBA's operations to improve Agency efficiency and effectiveness. The subject areas reviewed are determined either through responding to requests or inquiries from sources outside OIG, or through OIG assessments of SBA's risks and vulnerabilities. OIG activities in Goal 1 fall into one of five categories. It is important to note that the first four categories are comprised of statutorily mandated work or work over which OIG has little control as to volume or timing. Although OIG recognizes the need to respond to these requests, often their unpredictability impacts resources and significantly reduces OIG's ability to provide adequate oversight in category five, which is the heart of the office's mission – improving the efficiency and effectiveness of the Agency.

1. Review proposed legislation, regulations, Agency procedures, and other issuances.

   The IG Act requires that OIG review proposed legislation and regulations relating to Agency programs and operations and make recommendations concerning the impact of such proposals on program efficiency and effectiveness. At SBA, OIG also reviews and comments on all Agency procedures, as well as proposed issuances sent to us by the Office of Management and Budget (OMB), the President's Council on Integrity and Efficiency (PCIE), the General Accounting Office (GAO), and other organizations. We analyze vulnerabilities and risks, evaluate proposed procedures to determine whether they will provide reasonable assurance that the intended outcomes will occur, and provide other ideas and comments that may affect efficiency and effectiveness. The workload, which is unpredictable, ranges from about 250 to 350 reviews a year. The proposals reviewed varies from a few pages to several hundred pages.

   The output for each review is a document that reflects SBA's analysis, conclusions, and recommendations. The outcome is improved guidance to assure more efficient and effective Government operations.

2. Respond to requests for information from the public, SBA officials, other agencies, and Congress, and respond to complaints from employees and the public.

   OIG receives complaints from employees, program participants, and the public concerning misconduct or program inefficiencies involving Agency officials or program participants. Members of Congress also refer constituent complaints to OIG for evaluation and response. OIG assesses the merits of each complaint and may conduct substantial analysis to determine the validity of each complaint. The output is a document to the complainant (if known – some are anonymous); OIG may also issue a document to the appropriate Agency program office with recommendations for improvement. The outcome is a higher level of integrity in SBA programs.

3. Conduct audits required by law, requested by OMB or Congress, or requested by SBA program managers.

   Annual audits are required by law for SBA's financial statements, for all ten preferred surety bond companies, and to comply with the Government Information System Reform Act (GISRA). Other audits are mandated by law on a more sporadic basis, such as audits of District of Columbia water bill payments. There are several bills pending in Congress, which, if enacted, would mandate OIG reviews by FY 2003 (e.g., energy compliance). The financial statement audit is estimated by itself to cost $800,000. The output is an audit report with recommendations. The outcome is assurance that SBA or its program participants are in compliance with various statutes or improvements in efficiencies in program administration.

   Both OMB and Congress periodically request that SBA OIG perform specific audits. For instance, Congress has requested audits of agency implementation of the Government Performance and Results Act (GPRA), collection of personal data ("cookies") about individuals who access Government internet web sites, and agency travel practices. OMB desires audits involving erroneous payments. We participate in PCIE audits and inspections on issues that affect SBA, such as the implementation of Presidential Decision Directive 63 (PDD 63), which calls for a national effort to assure the security of the United States' critical infrastructures. The output is usually a report with recommendations. The outcome is improved efficiency and effectiveness of SBA program operations.

   SBA program managers also request audits and inspections of program participants and SBA operations. In the past, we have been unable to fulfill all requests due to other priorities and workload scheduling. For FY 2003, we are requesting sufficient resources to be able to respond timely to substantive requests. The output for each requested review is a report with recommendations. The outcome is improved efficiency and effectiveness of SBA program operations.

4. Develop Top Management Challenges and follow-up on corrective actions.

   Beginning in 1998, Congress has requested all OIGs to inform them of the top management challenges faced by their respective agencies. This request, now required by law, has become an effective vehicle both to highlight significant problems as well as to focus OIG resources on the most important activities of its agency. This process draws on the expertise and effort of all OIG divisions. OIG also assesses the progress of SBA's implementation of proposed corrective actions.

   The output is a document that identifies the top management challenges and identification of needed corrective actions. The outcome, when the Agency implements the recommended corrective actions, is improved efficiency and effectiveness of SBA program operations.

5. Conduct Agency program oversight through audits and inspections.

The IG Act requires the IG to keep the head of the establishment and Congress informed of problems and deficiencies in agency programs and operations. While some problems and deficiencies are discovered during the course of responding to external requests and complaints and in conducting mandated audits, there is no assurance that those activities will identify the major issues facing SBA. OIG therefore must focus its efforts on audits and inspections of those Agency operations that it has identified as presenting the most vulnerability and risk. The amount of OIG effort that can be devoted to such audits and inspections depends on staff availability after completion of the mandated and requested work.

OIG's annual operating plan of audits and inspections of SBA programs and activities addresses areas of potential abuse or operations requiring improved efficiency and effectiveness. These reviews are allocated resources based on the five areas of OIG strategic foci (lender oversight, financial management, information systems, high-risk areas, and new programs). The OIG FY 2003 annual performance plan presents five areas of program emphasis, with specific issues listed for each one:

Financial Assistance	Business Development	Management
- Lender Oversight - Asset Sales - Guaranteed Purchases - Microloan Program - Equity Injection - Early Defaulted Loans	- Economic Disadvantaged Standards - Entrepreneurial Development Service Providers - Small Business Workforce Quality	- Financial Statement Audit - Human Capital - E-commerce - GPRA - GISRA

Disaster	Advocacy
- Duplication of Benefits - Loan Application Modernization - Early Defaulted Loans	- Effectiveness of Ombudsman - Regulatory Cost Savings to Small Business - Federal Procurement Opportunities for Small Businesses

OIG has been able to provide only a minimal level of oversight to the areas critical to achievement of SBA's mission. OIG's FY 2003 budget request includes funding for six additional FTE's, which will be used for the following increase in OIG workload:

- Disaster Loans - The terrorist acts of September 11th resulted in huge economic losses to small businesses. Many small businesses will receive SBA economic injury disaster loans to help them recover. OIG historical data indicates the defaults on these types of loans usually occur 12 to 24 months after disbursement. Two additional FTE's would be devoted to auditing defaulted loans to determine whether loans were based on faulty information presented to SBA.

- Erroneous Payments - OMB Circular A-11, Section 57, requires agencies to submit erroneous payment data, assessments, and action plans with their budget submission. Two additional FTE's would be devoted to auditing the Agency's efforts to reduce the rate of erroneous payments and make recommendations for improvements.

- Program Participants – Reviews of program participants would provide OIG with important information on program efficiency and effectiveness and the level of abuse. OIG needs to conduct more program participant reviews, including audits of defaulted business loans, Small Business Development Centers, surety claims, Section 8(a) eligibility, HUBZone Empowerment Contracting Program (HUBZone) eligibility, Small Business Investment Companies in liquidation, and selected grants and contracts. One FTE would be devoted to audits of program participants.

- PDD 63 – OIG participated in a PCIE Government-wide review of agency compliance with PDD 63, to determine SBA's ability to protect and recover from threats to its critical infrastructure. Work to date demonstrated that SBA needs to improve its compliance with PDD 63. In FY 2003, OIG would devote one additional FTE to assess PDD 63 implementation.

The outputs for these initiatives are reports with recommendations and potential monetary recoveries. The outcome is improved efficiency and effectiveness of SBA programs.

Objective 1.1 ***Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner.***

	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Output Performance Goals					
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance	91%	88%	90%	90%	92%
Narrative assessment of OIG contribution to Agency task forces					
Intermediate Outcome					
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed by OIG and management	N/A (*)	52%	60%	60%	62%
Outcome					
Identification and implementation of corrective actions by the Agency to address the major management and operating problems in SBA (based on OIG reviews and recommendations made four years ago).					

(*) MIS system did not record this data in FY 1999

Objective 1.2 ***Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.***

	FY 1999 Actual	**FY 2000 Actual**	**FY 2001 Estimate**	**FY 2002 Estimate**	**FY 2003 Estimate**
Output Performance Goals					
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	94%	96%	95%	95%	95%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	97%	44%	60%	60%	60%
Intermediate Outcome					
Percentage of recommendations from reviews of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by OIG and management	N/A	44%	60%	60%	62%

Outcome

Identification and implementation of corrective actions by the Agency to address the major management and operating systemic problems in SBA from OIG reviews conducted four years ago.

Outcome/Impact for Goal 1: Identification and implementation of corrective actions taken by the Agency of the major management and operating problems in SBA. OIG activities improve the economy, efficiency, and effectiveness of SBA programs.

Methodology for Measuring Outcome: Estimate the impact of implemented recommendations, e.g., what percentage of corrective actions taken in response to the OIG recommendations resolved the identified problems, and/or resulted in improved SBA programs or operations.

Limitations: Because OIG staff and resources are limited and intervening variables may also make it difficult to draw direct causal relationships, a pilot for estimating impact will be developed in FY 2002. The pilot will assist us in determining the level of resources needed to evaluate impact. As SBA develops and verifies the accuracy of its performance measurement system, it may also be possible to use some of that information to assess OIG effectiveness.

Outputs and Resources

Goal 1	FY 1999 (actual)	FY 2000 (actual)	FY 2001 (estimate)*	FY 2002 (estimate)*	FY 2003 (estimate)*
Intermediate Outcomes					
Disallowed costs agreed to by management	2,322,780	$1,263,126	$3,573,440	$3,500,000	$5,000,000
Recommendations that funds be put to better use agreed to by management	$8,929,983	$1,462,700	$1,454,258	$2,500,000	$4,000,000
Outputs					
Reports issued	26	33	28	35	50
Number of Recommendations made	103	130	91	145	200
Number of reviews of Proposed legislation, Regulations, standard Operating procedures, and other SBA issuances	241	323	250	300	300
Resources					
FTE	42.4	42.4	39.4	39.4	61.5
Reviews of proposed Legislation, regulations, Agency, and other issu-Ances	$325,700	$372,650	$384,740	$418,575	$453,500
Respond to requests for Information and com-Plainants	$179,300	$201,300	$219,550	$225,620	$227,000
Mandated audits and Inspections (*)	$892,450	$1,125,650	$1,418,135	$1,392,780	$1,985,500
Top 10 Management Challenges	$274,550	$276,685	$301,250	$337,700	$358,100
SBA Program Over-Sight Audits and Inspec-Tions	$1,988,535	$2,003,800	$2,024,325	$2,156,450	$3,150,400
Travel	$180,000	$138,000	$150,000	$150,000	$150,000
Training	$24,000	$25,000	$46,000	$50,000	$65,000
SubTotal Goal 1	**$3,864,535**	**$4,143,085**	**$4,544,000**	**$4,731,125**	**$6,389,500**

(*) Includes FTE's and contracts costs for financial statement, surety bond and GPRA audits.
(**)OIG does not advocate or endorse predicting the monetary results of its audits and reviews. These amounts represent an estimate based on historical experience with a focus on those activities that are most vulnerable to abuse and misuse of program funds.

Major Accomplishments for FY 2001

- Major audits and inspections included SBA's information systems and computer security controls, Agency GPRA performance measures, Small Business Lending Companies and Preferred Lender Programs lender oversight activities, loan monitoring system development activities, surety guaranty companies, and internal management issues.

- Issued 21 audit reports, 4 audit advisory memorandum reports, and 3 inspection reports. Obtained management decisions on 91 audit recommendations.

- Reviewed 250 proposed issuances, including legislation, regulations, and procedures.

Major Goals and Objectives for FY 2002

- Financial Assistance. Continue to address Congress' priority concerns about the Agency's planned Loan Monitoring/Risk Management System, review the guarantee purchase process, update the Section 7(a) best practices study, review SBA oversight of Section 504 loan program, review SBA oversight of lenders/brokers and agents and defaulted loans, determine the effectiveness of SBA's microloan program, and analyze adequacy of credit analysis for loans to franchisees.

- Business Development. Conduct a review of the HUBZone program, selected program participants in the preferred guaranty surety program, Section 8(a) program, and SBA awarded contracts; and selected aspects of SBA's implementation of the Section 8(a) economically disadvantaged program.

- Management. Conduct the mandatory financial statement and information systems technology audits, review the Agency's e-commerce activities to evaluate internal controls, review SBA's human capital initiatives, continue monitoring the Agency's implementation of the GPRA, and follow up on SBA action to address major management challenges.

- Disaster. Review the Economic Injury Disaster Loan program, and selected early defaulted disaster loans to determine the extent to which loans have been made in accordance with SBA requirements. Review the Disaster Assistance Program's system modernization efforts.

- Advocacy. Conduct a survey of the various advocacy tools within the Agency to assess their effectiveness.

Justification for FY 2003 Budget Increase

The requested budget increase for FY 2003 would allow OIG to fund its authorized positions and increase staff by 6 positions to expand coverage of SBA's programs and participants, including those areas that have been identified as Congressional, OMB, or Agency priorities.

- We are requesting two FTE's to review defaulted SBA economic injury disaster loans made as the result of the terrorist acts of September 11th. This work should result in four audits with recommendations and monetary recoveries.

- Two additional FTE's are requested to review the Agency's efforts to reduce the rate of erroneous payments as required by OMB Circular A-11, Section 57. This effort would build on other OIG audits that identify erroneous payments and result in recommended improvements for ensuring the efficient operation of Agency programs.

- One FTE is requested to review SBA program participants. This investment should produce audits of one preferred sureties and audits of two Section 7(a) business loan recipients. These projects would provide OIG with important information on program efficiency and effectiveness and result in reports with recommendations.

- An additional one FTE is requested to review the Agency's compliance with PDD 63 and its ability to protect, and recover from threats to, its critical infrastructure and would result in one report with recommendations.

In FY 2001 with 40 FTE's, OIG issued 25 audit reports and 3 inspection reports. In FY 2003, with full funding for our authorized ceiling and the increase of six FTE's we expect to complete 50 reports with 200 recommendations.

Goal 2: Prevent and detect fraud and abuse, and foster integrity in programs and operations.

OIG directly supports the Agency's mission by detecting, investigating, and deterring fraud in SBA programs and operations. OIG activities conducted under Goal 2 help achieve a high level of integrity in SBA's applicants, lenders, and employees, which is a critical factor in the proper administration of SBA programs. This ensures that SBA resources are utilized by those who deserve and need them the most. OIG activities in Goal 2 fall into four categories.

1. Responding to requests for information from the public, SBA officials, other agencies, and the Congress, and responding to complaints from employees and the public.

   OIG receives complaints from employees, program participants, and the public concerning program waste, fraud, and abuse. Members of Congress also refer constituent complaints to OIG for evaluation and response. OIG assesses each complaint, determines whether an investigation or other OIG action is warranted, and informs complainants of initial disposition. The output is appropriate disposition of complaints. The outcome is the initiation of investigations or other OIG actions that reduce fraud, waste, and abuse and strengthen program integrity.

2. Conducting investigations.

   In accordance with the IG Act, OIG manages a nationwide program to detect, investigate, and prevent illegal and/or improper activities involving SBA programs, operations, and personnel. OIG's criminal-investigative staff conduct complex criminal investigations and carry out a full range of traditional law enforcement functions, including testifying before grand juries and in court, making arrests, executing search warrants, and conducting electronic monitoring. Over the past 5 years, SBA/OIG investigations have resulted in 325 indictments, 278 convictions, $70,890,921 in potential recoveries and fines, and $42,337,852 in savings. The investigations were conducted in every section of the country and were worked by SBA/OIG special agents out of field offices in 14 cities. The outputs of these investigations are indictments, convictions, recoveries, fines, and savings. The outcomes are greater deterrence and a higher level of integrity in SBA programs.

   In the wake of the recent terrorist attacks, the SBA OIG expects a huge increase in SBA disaster loan applications. Based on our past experience in disasters, particularly the urban disasters in southern California in the early- to mid-1990s, we anticipate receiving disaster-fraud referrals that would more than double our disaster caseload over the next 2 years. Disaster assistance is one of SBA's most vital programs; consequently, maintaining the integrity of the program is crucial to ensure that benefits are not diverted from needy victims.

3. Fraud awareness education and program vulnerability reviews.

   OIG conducts briefings for SBA's employees, lenders, and other resource partners as part of its mission to educate them on identifying and preventing fraud, waste, and abuse. These briefings have been effective, as over 50 percent of our investigations are based on referrals from SBA program heads or employees. Recently, we have modified our briefing strategy to include participating lenders and other interested parties. The outputs are fraud awareness briefings and referrals. The outcome is a higher level of integrity in SBA programs.

   In FY 2003, OIG will begin an initiative to evaluate fraud reduction opportunities by conducting an evaluation of the business loan program to identify systemic weaknesses that may make it vulnerable to fraud and abuse. OIG will accomplish this by identifying program and policy vulnerabilities and examining the adequacy of program controls.

4. Name Check Program.

   Pursuant to provisions of the Small Business Act and the Small Business Investment Act, SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG processes name checks and, where appropriate, fingerprint checks on applicants. When program applicants appear to be ineligible for assistance based on character, OIG makes referrals to program officials for adjudication. OIG also performs background checks to comply with Federal regulations that require Agency employees to have security clearances appropriate for their positions. The outputs are

character ineligibility referrals to SBA program officials for appropriate decisions, which result in denial of assistance or employment. The outcome is a higher level of integrity in SBA programs.

In FY 2001, we project that we will have conducted name checks on approximately 1,500 loan applicants with projected denial of assistance of $20 million. In FY 2003, SBA will inform all prospective borrowers that they are subject to a possible criminal background check. OIG plans to perform periodic criminal background checks on a significant sample of borrowers and, based on the results, will determine whether a wider effort is warranted. By conducting name checks on a significant sample of loan applicants, we estimate that loans denied due to bad character or otherwise not made as a result of this deterrence program will be $40 million. This estimate is based on OIG's Operation Cleansweep III, which disclosed that 9.1 percent of Section 7(a) loans had borrowers who failed to fully disclose their criminal records. Borrowers who failed to disclose their criminal histories had higher rates of default on SBA loans than those who disclose their records or had no criminal histories. The outputs are reports with recommendations to deny assistance or employment. The outcome is reduced vulnerability and higher integrity in SBA's programs.

The following chart divides the activities in Goal 2 among the five major areas in SBA.

Financial Assistance	Business Development	Management
- Loan Fraud Investigations - Asset Sales - Fraud Identification Educational Briefings - Loan Program Participant Name Check	- Abuses of Economic Disadvantaged Standards - Fraud Identification in Section 8 (a) Contracting - Fraud Detection in Entrepreneurial Development Programs - BD Program Participant Name Check	- Computer Forensics - Controls on E-commerce - Employee Integrity - Employee Background Checks and Security Clearances - Administrative Violations

Disaster	Advocacy
- Duplication of Benefits - Loan Fraud Investigations - Disaster Program Participant Name Check	- Fraud Prevention Seminars - Vulnerability Assessments

Objective 2.1 ***Detect/identify waste, fraud and abuse, and foster integrity in SBA programs and operations and take appropriate actions.***

	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Percentage of criminal cases referred that are accepted by U.S. Attorneys	N/A*	NA*	40%	45%	50%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. Attorneys	N/A*	NA*	NA*	30%	35%
Intermediate Outcomes					
Ratio of monetary recoveries to losses	20%	17%	20%	20%	20%
Percentage of closed cases resulting in criminal, civil, or administrative actions	32%	23%	25%	25%	30%

* The Investigations Division's current MIS has just begun tracking when a referral, whether criminal or ACE, is "accepted" by a Federal prosecutor. When fully implemented in FY 2002, SBA's MIS should provide that capacity.

Objective 2.2 ***Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants.***

	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Output Performance Goals					
Number of SBA employees attending integrity briefings	499	222	120	125	125
Number of private sector partners attending integrity briefings	170	282	491	500	500

Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.
Output Performance Goal
Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations

Outcome/Impact for Goal 2: SBA internal policies, procedures, and controls are strengthened and provide a deterrence for future wrongdoing. OIG activities lead to changes in SBA practices that effectively reduce fraud and abuse, and promote the integrity of SBA programs and operations.

Methodology for Measuring Outcomes: OIG will assess the practicality and feasibility of developing evaluations of major investigative cases and related audits and inspections to estimate the impact on the prevention and deterrence of fraud and abuse. In addition, as SBA develops and verifies the accuracy of its performance measurement system, it may be possible to use some of the information to indicate OIG effectiveness.

Limitations: Evaluation efforts will be constrained by a lack of information on the extent of actual fraud and other misconduct in SBA's programs and operations.

Outputs and Resources

Goal 2	FY 1999 (actual)	FY 2000 (actual)	2001 (estimate)	2002 (estimate)	2003 (estimate)*
Intermediate Outcomes					
Indictments	44	74	52	52	56
Convictions	53	39	40	40	44
Potential Investigative Recoveries and Fines	$10,434,102	$7,590,827	$12.4 M	$12.4 M	$13.0 M
Loans Not Made As a Result of:	$28,677,286	$28,741,121	$20.8 M	$20.6 M	$60.3 M
-Investigations	$295,000	$1,404,529	$126,000	$125,000	$1.3 M
-Name Check Progr.	$28,382,286	$27,336,592	$20.6 M	$20.5 M	$40 M
Outputs					
Number of Fraud-Awareness & Integrity Briefings	12	15	17	18	19
Hotline Calls/Letters/Walk-Ins	1,623	2,015	1,250	1,400	1,750
Reports			1		2
Recommendations			3		6
Resources					
FTE	56.2	56.2	56.2	56.2	67.2
Respond to Requests For Information	$349,500	$400,060	$419,850	$424,500	$327,800
Criminal Investigations	$4,500,375	$4,595,800	$4,984,635	$5,006,750	$5,289,000
Fraud awareness Briefings & Program Vulnerability Reviews	$41,705	$45,502	$46,870	$49,750	$437,800
Name Check Program*	$418,125	$424,500	$448,575	$487,500	$815,000
Telecommunications	$50,000	$55,000	$60,000	$62,000	$62,000
Training	$11,000	$16,000	$25,000	$25,000	$65,000
Travel	$251,000	$162,000	$179,000	$200,000	$200,000
GSA Leased Vehicles	$45,000	$45,000	$53,000	$61,000	$65,000
SubTotal Goal 2	**$5,566,705**	**$5,743,862**	**$6,216,930**	**$6,316,500**	**$7,261,600**

* Includes FTE's and background investigation contract costs.

Major Accomplishments for FY 2001

- Projections based on our actual 10-month results indicate that, during FY 2001, SBA OIG will have had an investigative workload of 430 of its own cases (with estimated SBA-related losses/subjects' illegal gains of $165 million) as well as 105 cases (estimated SBA-related losses/subjects' illegal gains of $22 million) that had been referred to other law enforcement agencies for investigation. OIG's own cases generally cover complex financial transactions and multiple investigative subjects, in a few cases numbering more than 100. The 105 referrals involve allegations which we had jurisdiction to investigate but where limited resources would not allow us to investigate before expiration of the statute of limitations. Traditionally, results of those referrals produce smaller benefits for SBA, due in large measure to the other agencies' lack of specialized knowledge of SBA programs and local personnel.

- Based on actual 10-month results, we project that during FY 2001 SBA OIG will have made final disposition of 59 (estimated SBA-related losses/subjects' illegal gains of $14.2 million) of those 430 of its own cases.

- Based on actual 10-month results, we project that during FY 2001 SBA OIG investigative efforts will have generated 52 indictments, 40 convictions, and financial accomplishments of more than $12.5 million in potential recoveries, fines, and savings from criminal investigations, and $20.6 million in savings from loan-applicant name checks.

Major Goals and Objectives for FY 2002

- OIG will investigate those cases with the highest impact and potential for successful prosecution and other cases that maintain program and employee integrity. In addition, OIG will pursue civil fraud under the False Claims Act and the Financial Institution Reform, Recovery, and Enforcement Act of 1989.

- OIG will continue its programs to educate SBA employees and the lending community concerning their responsibilities to report allegations of wrongdoing. Outreach will include attending and/or participating in lender-related conferences and other activities.

- OIG will continue its name and fingerprint checks for SBA program participants, and assist the Agency in its pre-employment screening program by conducting background checks for potential key employees. OIG will explore the use of other information sources to identify persons of bad character and preclude their participation in SBA programs.

Justification for FY 2003 Budget Increase

We are requesting 12 additional FTE's for FY 2003 to combat fraud and improve the integrity of SBA programs. We are requesting four additional FTE's for our background character and security check program to increase the level of name checks, which should greatly reduce the Government's financial risk from SBA loans. SBA will inform all prospective borrowers that they are subject to a possible criminal background check. OIG plans to perform periodic criminal background checks on a significant sample of business loan applicants, and, based on

the results, will determine whether a wider effort is warranted. In FY 2001, we project that OIG's name check program will have prevented the Agency from making more than $20 million in loans to individuals who were not of good character. We estimate that the four additional FTE's would result in an additional $20 million in loans denied due to bad character or otherwise not made as a result of this deterrence program.

We are requesting two FTE's so that we can reduce the caseload per criminal investigator and complete cases more timely and effectively. In FY 2000, OIG generated investigations on 40 percent of the referrals it received concerning SBA-related allegations; OIG achieved 39 convictions, 74 indictments, and $8,995,356 in dollar accomplishments as a result of its investigations. An increase of two FTE's on the criminal-investigative staff would increase the number of referrals that we can investigate and is expected to increase investigative accomplishments in FY 2003 by approximately four indictments, three convictions, and $1.2 million in potential recoveries, fines, and savings. This would enhance deterrence and strengthen the integrity of SBA's important programs.

We are requesting another four FTE's dedicated to disaster-fraud investigative assignments based on expected doubling of this workload emanating from recent terrorist activities. We estimate that by FY 2008, these four FTE's would generate approximately 36 disaster-fraud indictments, 32 convictions, and $11.6 million in potential recoveries, fines, and savings.

We are requesting two FTE's to conduct fraud reduction evaluations of SBA programs, beginning with an evaluation of fraud reduction in the business loan programs.

Goal 3: Ensure the economical, efficient, and effective operation of OIG.

OIG recognizes that its operations are only as good as its people, communications, and planning and control processes. Therefore, OIG will continue to emphasize these functions and strive to improve them. OIG activities will fall into seven main categories.

1. Human Capital.

   OIG has independent personnel authority and administers a comprehensive nationwide personnel management program that includes position classification, recruitment and staffing. OIG utilizes various strategies available in current law to recruit, hire, and retain a diverse and high performing workforce. OIG manages a comprehensive career development program assessing skill levels and identifying appropriate training to promote professional growth for its employees. The outputs are personnel actions executed (e.g., new hires, promotions, training courses approved). The outcome is a highly trained, diverse, and knowledgeable staff.

2. Budget.

   OIG is appropriated a separate budget and has independent responsibility for budget formulation, execution, and reconciliation. As a result of OIG's personnel authority, OIG also manages the compensation and benefits associated with its employees. OIG designs and implements a financial management system to align with OIG strategic goals and objectives to ensure the most efficient and effective results. The outputs are budget documents, and allocations. The outcome is OIG strategic objectives are supported with appropriate resources.

3. Information technology.

   OIG provides up-to-date and secure computer technology and information systems for OIG staff. OIG continually evaluates new software and hardware to improve the productivity of its employees. OIG designs automated information systems. Many OIG employees are armed with laptops and remote dial in capabilities to facilitate a mobile workforce and take advantage of telecommuting opportunities. OIG has established an intranet site which houses internal guidance and procedures and a web page for the public to learn about our organization and have immediate access to our published products. The outputs are software and hardware purchases, MIS applications, and automated tools. The outcome is a workforce that has the skills and tools to maximize technology to be more effective and efficient in their work.

4. Administrative and procurement services.

   OIG independently manages a variety of administrative and procurement services in direct support of its mission. OIG utilizes the streamlined Government credit card program to ensure employees are equipped with the necessary supplies, and coordinates interagency agreements for services and partners with the SBA's Office of Procurement and Grants Management to execute large contracts. OIG averages over 400 procurement actions annually in support of the mission of the office. OIG's manages an extensive administrative support program procuring adequate and appropriate telecommunications, office space, paperwork and records management system for its 14 field offices and Headquarters staff. The outputs are contract and purchase orders executed and well coordinated leased space assignments. The outcome is a workforce with professional space and adequate tools to do their job in a timely fashion.

5. Support services.

   OIG has a cross-trained staff to provide timely support to OIG staff members. The support services group provides a variety of services, including time and attendance record keeping, data processing, filing, and routine clerical support. The use of automation has allowed the support services group to do more with less in support of the three OIG operating units to aid in carrying out the OIG mandated functions. Developing automated tracking systems and

spreadsheets for routine procedures is increasing the office's efficiency. The outputs are completed administrative tasks. The outcome is a workforce with professional space and adequate tools to do their job in a timely fashion.

6. Communications.

An ongoing major initiative of OIG is to strive to improve communication with Agency officials and stakeholders. OIG issues a number of products designed to meet the needs of our customers. We use the OIG website to post our various publications making them easily accessible to the public. OIG serves on various SBA working groups providing timely advice and guidance and on the PCIE taskforces sharing the knowledge/experience of individual OIG's. OIG hosts regular briefings for Hill staffers to better educate them on our organization and recently completed or ongoing projects. The outputs are newsletters, semiannual reports, and briefings. The outcome is a strong alliance with informed customers and stakeholders.

7. Planning process.

OIG works with SBA officials and major stakeholders developing strategic and annual operating plans. OIG's planned activities are targeted to be more proactive in evaluating SBA's programs, management structure, and administrative systems, and develop work products that provide input or feedback to SBA management on an expedited basis. Maintaining ongoing liaison with Agency officials (both headquarters and field), key congressional committees, the OMB, PCIE, and others as appropriate is key to effectively accomplishing the OIG mission. The outputs are strategic plans and annual plans. The outcome is an OIG that operates efficiently and effectively.

Objective 3.1 ***Provide the tools, services, and supportive work environment necessary to improve employee productivity.***

	FY 1999 Actual	**FY 2000 Actual**	**FY 2001 Estimate**	**FY 2002 Estimate**	**FY 2003 Estimate**
Output Performance Goals					
Percentage of staff that received the training established by OIG for their career needs	N/A*	84%	100%	100%	100%
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A*	100%	100%	100%	100%
Intermediate Outcomes					
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A*	62%***	65%	65%	65%
No material weaknesses identified in audit quality controls by external peer reviews	N/A**	N/A**	None	N/A**	N/A**

*Standards for measuring this goal and the survey instrument were developed in FY 2000
**Peer reviews are conducted every three years. The last one was conducted in FY 2001.
***Based on responses to an OIG Organization Assessment Survey distributed September 2000: "Considering everything, how satisfied are you with your job?"

Objective 3.2 ***Communicate and foster cooperation with all stakeholders, customers, and interested parties.***
Output Performance Goals/Intermediate Outcome
Narrative assessment that may include anecdotal results of ongoing contacts with customers and stakeholders, OIG work on PCIE and interagency projects, and/or customer satisfaction surveys

Outcome/Impact for Goal 3: An OIG staff that is fully supported with the tools, services, and direction necessary to be economical, efficient, and effective, and works cooperatively and in a timely manner with customers and stakeholders.

Methodology

An analysis of the performance goal results in each Annual Performance Report (beginning with the FY 2001 report) should indicate if OIG is operating economically, efficiently, and effectively.

Outputs and Resources

Goal 3	FY 1999 (actual)	FY 2000 (actual)	FY 2001 (estimate)	FY 2002 (estimate)	FY 2003 (estimate)
Intermediate Outcomes					
An OIG staff that is fully supported with the tools, services, and direction necessary to be economical, efficient, and effective, and works cooperatively and in a timely manner with customers and stakeholders	N/A	100%	100%	100%	100%
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A	62%	65%	70%	75%
Outputs					
Percentage of staff that received the training established by OIG for their career needs	N/A	85%	90%	90%	90%
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A	100%	100%	100%	100%
Number of Hits to OIG Homepage	80,000	160,000	525,000	1 million	1.5 million
Number of External Reports Issued	19	14	19	19	19
Number of Employees Trained	114	94	102	124	150
FTE	12.4	12.4	12.4	12.4	13.3
Resources					
Human Capital	$140,850	$168,600	$184,550	$192,450	$195,900
Budget	$82,245	$101,200	$108,750	$109,375	$110,400
Information Technology*	$297,435	$232,300	$240,887	$180,607	$171,300
Administrative and Procurement Support **	$746,223	$507,257	$490,679	$285,799	$256,950
Support Services***	$332,732	$304,771	$325,177	$282,967	$281,550
Communication	$91,450	$114,450	$208,500	$211,450	$212,100
Planning	$70,325	$81,475	$96,750	$98,450	$100,700
Travel	$3,000	$3,500	$5,500	$10,000	$10,000
Training	$4,500	$4,500	$5,000	$8,000	$10,000
SubTotal – Goal 3	**$1,768,760**	**$1,518,053**	**$1,665,793**	**$1,379,098**	**$1,348,900**

*Includes FTE and IT equipment
**Includes FTE and other contractual services in support of the entire OIG
***Includes FTE and supplies for entire OIG

Major Accomplishments for FY 2001

- Human Capital – During the first 10 ½ months of FY 2001, OIG executed 94 personnel actions, issued 14 job announcements, coordinated 3 retirements, hired 1 Presidential Management Intern (PMI), facilitated 155 training opportunities, and participated in 1 college job fair.

- Budget – effectively managed OIG's FY 2001 budget of $11.9 million (less a .22% rescission of $26,297), and $500,000 transfer for disaster assistance.

- Information Technology - During the first 10 ½ months of FY 2001, OIG implemented Teammate, an automated workpaper/workflow software; upgraded 19 computers, 4 printers, and the FBI's NCIC software; established oig@sba.gov e-mail account to receive complaints and referrals; posted 10 audit reports, 8 OIG Monthly Updates and one Semiannual Report to the President to OIG's website; and received 500,000 hits on OIG's website.

- Administrative and Procurement Services - During the first 10 ½ months of FY 2001, OIG executed 382 procurement actions.

- Support Services – During the first 10 ½ months of FY 2001, completed 612 requests for services from OIG staff, 90 percent of which were completed on or before the due date.

- Communications - OIG responds to numerous inquiries from OMB, GAO, the press, the public, program participants, and others. This category includes Freedom of Information/Privacy Act (FOIA/PA) requests, as well as discovery requests involving OIG audits, inspections, investigations, and other activities that may be the subject of criminal, civil, or administrative litigation. The output for each request is a response to an outside party. The outcome is a better-informed public, compliance with laws, and more informed decision-making. During the first 10 ½ months of FY 2001, OIG held 1 congressional staff briefing, issued 8 OIG Monthly Updates and 1 Semiannual Report to the President, responded to 84 inquiries to the new OIG e-mail address, and received 35 FOIA/PA requests.

- Planning - During the first 10 ½ months of FY 2001, OIG issued its FY 2000 Annual Performance Report and held three strategic planning meetings.

Major Goals and Objectives for FY 2002

- Human Capital – Continue efforts to recruit and retain valuable employees for OIG, implement Individual Development Plans for all employees, and develop a comprehensive workforce restructuring plan.

- Budget – Effectively manage OIG's FY 2002 budget, aligning resources with office goals and implement the Agency's new financial system.

- Information Technology – Continue the computer hardware upgrade plan (30% in FY 2002), enhance the MIS including evaluating a new system for the Investigations Division, aggressively implement the requirements of the Government Paperwork Elimination Act, evaluate the potential of other software to increase worker productivity, and work with the National Archives and Records Administration to address the issues of electronic records.

- Administrative and Procurement Services – Procure necessary supplies, materials, and office space for OIG employees in a timely fashion.

- Support Services – Provide fast and accurate support to OIG employees and customers.

- Communications – Continue to dialogue with SBA managers, congressional members, and staff and issue products that educate and inform our stakeholders.

- Planning – Continue to evaluate and modify, where appropriate, the OIG strategic plan, monitor progress on the annual plan, and communicate performance plan progress to our stakeholders.

Justification for FY 2003 Budget Increase
A nominal increase is requested to purchase necessary equipment and supplies and to cover estimated cost increases.

TABLE 1

	FY 2001 Estimate	FY 2002 Request	FY2003 Proposed	Inc (Dec) vs FY 2002 Request
Obligations:				
Personnel Compensation	$ 8,500	$ 8,750	$ 10,720	$ 1,970
Civilian Personnel Benefits	2,125	2,180	3,191	1,011
Travel and Transportation of Persons	486	480	370	(110)
Transportation of Things	0	0	0	0
Communications, Utilities & Misc.	1	1	65	64
Printing and Reproduction	1	1	1	0
Supplies and Materials	40	40	70	30
Equipment	38	50	150	100
Other Services	736	425	944	519
Subtotal Prior to Rescinded Funding	$ 11,953	$ 11,927	$ 15,511	$ 3,584
Rescinded Funding	$ (26)	0	0	0
Subtotal Including Rescinded Funding	$ 11,927	$ 11,927	$ 15,511	$ 3,584
Transfer from Disaster	$ 500			
Rescinded Funding	0			
Subtotal	$ 500			
Total Financing	$ 12,427	$ 11,927	$ 15,511	$ 3,584
Authorized Positions	125	124	142	
On Board Strength	108			

TABLE 2 FTE Allocation by Organization FY 00 – 03

Component	FY 2000 Authorized	FY 2001 Authorized	FY 2002 Requested	FY 2003 Requested
Immediate Office	3	3	3	3
Auditing	45	45	45	51
Investigations	52	52	52	62
Inspection and Evaluation	8	8	8	10
Management and Policy	12	12	12	12
Counsel	4	5	4	4
Authorized Ceiling Total	124	125	124	142
On Board Strength	111	108		

Explanation of Budget Object Class Increase/Decrease

1100/1200 Compensation and Benefits:

FY 2003 Compensation and Benefits request is for an additional $3.0 million. This increase funds 18 additional FTE's and those positions which are authorized but not funded. The additional 20 positions include 6 auditors, 6 investigators, 4 security specialists for the Name Check Program, and 2 program analysts. An increase of $511,000 is identified to provide pension liabilities and expenses previously paid by OPM, and will be immediately transferred to OPM upon receipt.

2100 Travel:

OIG is planning to utilize its professional staff more effectively to conduct joint investigations and audits.

2300 Communications:

The increase in OIG's request for FY 2003 reflects more of an accounting change than an increase. The requested amount properly portrays the true cost of communication expenses for our field personnel, who make up over 50 percent of OIG staff. In previous years this expense was identified under "Other Services."

2400 Printing:

OIG does not request additional funds in this category.

2500 Other Services:

OIG will fund the costs of SBA's financial statement audit, estimated at close to $690k for FY2001. In addition to the financial statement audit, this category includes all other expenses associated with core mission requirements, e.g., vehicle expenses for all field personnel to include, vehicle rental, parking fees, and maintenance; metro subsidy for all eligible personnel; professional liability insurance; ammunition and firing range expenses; and fees associated with performing background checks and investigations.

2600 Supplies and Materials:

Increase of $30K for supplies and materials to support the requested additional FTE's

3100 Equipment:

Increase for equipment, desks, and computers to support additional FTE to meet increase in core mission requirements.

Workforce Restructuring Plan

Overview

OIG is an independent office created within SBA by law to conduct and supervise audits, inspections, and investigations relating to SBA programs and supporting operations; to detect and prevent waste, fraud, and abuse; and to promote economy, efficiency, and effectiveness in the administration and management of SBA programs.

OIG keeps the SBA Administrator and the Congress fully informed of any problems, recommends corrective actions, and monitors progress in the implementation of such actions.

The three operating components of OIG are the Auditing Division, the Investigations Division, and the Inspection and Evaluation Division. They operate within professional standards set by General Accounting Office and the President's Council on Integrity and Efficiency and are subject, in part, to stringent peer review. The Auditing and Investigations Divisions each administer their respective activities through field offices around the country. The Management and Policy and Counsel Divisions support both the IG and the operating divisions by providing policy, planning, administrative, and legal services respectively.

OIG's Restructuring Plan

During FY 2002, OIG will develop a comprehensive workforce analysis to determine the best approaches to achieve the Administration's goals of:

- reducing the number of managers;
- reducing layers;
- reducing the time it takes to make decisions;
- increasing the span of control; and
- redirecting positions within the agency to ensure that the largest number of employees possible are in direct service delivery positions that interact with citizens and retrain and/or re-deploy employees as part of restructuring efforts.

Based on a preliminary analysis of workforce restructuring, OIG needs to re-assess its strategic plan, workload, and resource allocation among the operating Divisions. OIG will complete these tasks and develop a formal 5-year workforce restructuring plan by June 30, 2002.

Our preliminary analysis of OIG staffing compared to the Administration's goals follows:

- OIG's Plan to Reduce the Number of Managers: OIG's current supervisory ratio is 1 to 4. Supervision is one factor in determining the need for managers. Managers are responsible for managing a function within an area of responsibility, such as directing all auditing activity for an SBA program or directing all criminal investigations within a geographical area. These activities include coordinating OIG programs with numerous SBA executives, overseeing work performed by contractors, and coordinating activities with other investigative agencies and numerous United States Attorneys. The OIG workload restructuring plan will address how OIG will increase the ratio of employees to managers, while providing quality services with the least number of managers. We anticipate being able to increase the ratio of employees to managers.

- OIG's Plan to Reduce the Number of Organizational Layers: Organizationally, OIG is structured with only two to four organizational layers, depending on the operation. There may be some opportunity to reduce one layer, but this needs to be weighed against any impact on work effectiveness. Our workload analysis will include an assessment of whether there are any opportunities to increase efficiency and effectiveness by reducing organizational layers.

- OIG's Plan to Reduce the Time it Takes to Make Decisions: The nature of OIG's work allows employees to act independently and make many decisions at the employee level as long as they work within the professional guidelines and legal authorities established for each profession. Our analysis and plan, however, will examine the appropriate levels at which decisions should be made to determine whether there are opportunities to reduce the time it takes to make decisions.

- OIG's Plan to Increase the Span of Control: As stated above, we will conduct an assessment of our work to determine the appropriate level of supervision and span of control.

- OIG's plan to redirect positions within the agency to ensure that the largest number of employees possible are in direct service delivery positions that interact with citizens and retrain and/or re-deploy employees as part of restructuring efforts:

  Our focus must be in situating our investigators, auditors, and evaluators in locations where they can provide maximum oversight of SBA programs and program participants. Our goal is to place as many employees as possible in direct service delivery. Currently our first-line managers spend much of their efforts in direct service delivery. We will, however, determine whether there is additional opportunity to redirect positions within OIG.

As a result of our planned review of the OIG strategic plan, workload and staffing over the next year, we will be in a better position to assess and project:

- costs and/or savings that will result from implementing organizational changes at the account and/or program level as appropriate;

- the human resources management tools and flexibilities needed to implement the plan;

- the specific actions to be taken, with a timetable; and

- the anticipated impact that these changes will have by fiscal year and the agency's plan for measuring progress.

For More Information

- SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:
- Phone: 1-800 U ASK SBA
- Fax: 202-481-6190
- E-mail: answerdesk@sba.gov
- TDD: 704-344-6640
- Your rights to regulatory fairness: 1-888-REG-FAIR
- Internet
  SBA Home page: http://www.sba.gov
  Gopher: http://www.sba.gov/gopher
  U.S. Business Advisor: http://www.business.gov

SBA Resource Partners

Inquire at your local SBA office for the location nearest you.

- Business Information Centers (BICs)
- Tribal Business Information Centers (TBICs)
- Service Corps of Retired Executives (SCORE)
- Small Business Development Centers (SBDCs)
- U.S. Export Assistance Centers (USEACs)
- Women's Business Centers (WBCs)

Publications

- *The Facts About ... SBA Publications* — a listing of free SBA publications

The SBA — America's Small Business Resource

Did you know that in fiscal 2001 the SBA —

- backed more than $16.5 billion in financing to America's small businesses?
- approved more than 50,000 small business loans totaling almost $12.2 billion?
- invested $4.5 billion in small businesses through its venture-capital program?
- provided more than 48,000 loans totaling more than $1 billion to disaster victims for residential, personal-property and business loans?
- gave management and technical assistance to an estimated 1.3 million entrepreneurs through its grant programs and resource partners?
- responded to almost a quarter million telephone and e-mail inquiries at the SBA Answer Desk?

Did you know that America's 25 million small businesses —

- employ more than 58 percent of the private work force?
- generate more than 51 percent of the nation's gross domestic product?
- are the principal source of new jobs?

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

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