

**CONFIRMATION HEARING OF KAREN GORDON  
MILLS TO BE ADMINISTRATOR OF THE SMALL  
BUSINESS ADMINISTRATION**

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**HEARING**

BEFORE THE

**COMMITTEE ON SMALL BUSINESS AND  
ENTREPRENEURSHIP  
UNITED STATES SENATE**

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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WEDNESDAY, APRIL 1, 2009

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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED ELEVENTH CONGRESS

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**CONFIRMATION HEARING OF KAREN GORDON MILLS TO BE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION**

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**WEDNESDAY, APRIL 1, 2009**

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

The committee met, pursuant to notice, at 10:03 a.m., in Room 428-A, Russell Senate Office Building, Hon. Mary L. Landrieu (chairman of the committee) presiding.

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

**OPENING STATEMENT OF THE HONORABLE MARY L. LANDRIEU, CHAIRMAN, AND A U.S. SENATOR FROM LOUISIANA**

Chairman LANDRIEU. Good morning. I would like to bring the confirmation hearing to order for the nomination of Karen Gordon Mills to be Administrator of the SBA. Welcome, Ms. Mills, to our committee.

I would like to also welcome all those in the audience. I am sure many are family and friends, in particular I understand that Barry Mills is with us today and we welcome the husband of our nominee.

I am looking forward to the more official introduction by my colleague, Senator Snowe, who has known you, I understand, for many years and will be doing the official introduction, but I do have a brief opening statement for the record.

I know that those here in attendance understand the extraordinary work that is before Ms. Mills, coming into an agency that has been, in my view, almost dangerously underfunded in the last administration and at a time of extraordinary challenge for our small businesses across the country. But if there was ever a nominee up for the task, I believe this nominee most certainly is.

She graduated Magna Cum Laude from Harvard University with a degree in economics. She is going to need to rely on all of that good training to lead this effort. She started out working as a project manager for General Mills and then segued into what was to become her true passion, growing new businesses. She was a founding partner and managing director of Solera Capital, a New York-based venture capital firm run largely by women. She currently serves as President at MMP Group, Inc., a private equity in-

vestment and advising firm, and she has served in that position since 1993.

Senator Snowe will give more details in her introduction. Ms. Mills demonstrated her leadership potential in many activities in Maine, but has also been involved nationally and internationally. The scope of her work has been very, very broad.

In my several meetings with Ms. Mills, I am happy to share that she and I have a great deal in common in terms of our views and passion about the work that she is undertaking. We want this agency to expand and to be more robust, a more muscular, reliable, and trustworthy partner to community banks and other lending entities to help our small businesses and our entrepreneurs, which really are the pride of America, in their efforts to lead us out of this recession.

She has a particular interest, of course, in assisting women and minority entrepreneurs, which is something the Ranking Member and I share.

Senator SNOWE. Thank you.

Chairman LANDRIEU. I also want to say that in our meetings, we have also talked about the SBA reaching out to being a stronger partner with more of our community banks as we work for job creation in America.

And finally, we discussed an emphasis on quality, not just the quantity of our work, but the quality of our work, to make sure that the programs in the SBA are structured and focused in a way that we can measure results and make sure that this agency is really a model, not just for our country, but for the world as other nations look to see how their governments can partner with growing businesses.

Let me just add that the SBA was not part of the last administration's cabinet. Under the previous administration, the budget was slashed by 28 percent. I am pleased to say that Senator Cardin, a member of our committee, has already established a much higher number in the budget allocation for the Small Business Administration and I want to thank Senator Cardin, who will be with us later this morning.

But in conclusion, I believe that President Obama's nominee, Karen Mills, has the right mix of experience, education, passion, and a willingness to serve that will be a true benefit to the entrepreneurs and small businesses of America today. So I look forward to the rest of this hearing and I would now like to turn it over to our Ranking Member, Olympia Snowe from Maine.

**OPENING STATEMENT OF THE HONORABLE OLYMPIA J.  
SNOWE, A U.S. SENATOR FROM MAINE**

Senator SNOWE. Thank you. Thank you, Madam Chair, for calling this hearing today and for your leadership in all respects, and particularly in moving forward swiftly at this critical juncture to consider the President's nomination of Ms. Karen Gordon Mills to be the next Administrator of the Small Business Administration.

Despite the fact that today happens to be April Fool's Day, you are not in for any April Fools pranks, but with Congress, you never know. [Laughter.]

Senator SNOWE. Also interesting, in thinking about the fact that the President has nominated a woman to lead the Small Business Administration, it comes at a time, actually, when Chair Landrieu and I have made history, because for the first time in the entire history of the Congress, a Chair and Ranking Member have both been women for a standing committee. So I think that women are going to be leading the way.

Senator SHAHEEN. I agree with you.

Senator SNOWE. And I also want to recognize, speaking of women leaders, my colleague, Senator Collins, who is regrettably unable to be here today because of a critical hearing at the Senate Armed Services Committee, but I want to include her full statement in the record.

[The prepared statement of Senator Collins follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

I am honored to support Karen Mills' nomination to be the next Administrator of the U.S. Small Business Administration (SBA). Karen has exactly the skills needed to lead the SBA at this critical time.

As this Committee is well aware, small businesses play a critical role in our nation's economy. In Maine alone, we have 154,000 small businesses. About 112,000 are self-employed individuals, and another 42,000 of these small businesses have employees. These Maine entrepreneurs created nearly 5,000 new jobs in 2007 alone. During the last decade, America's small businesses have created about 70 percent of all new jobs.

Our economic recovery ultimately depends on our nation's small businesses. To boost small businesses, strong and effective leadership is required. As a former New England Regional Administrator of the SBA, I know how essential this agency is to our nation's economy. Karen Mills has exactly the experience and background to lead the U.S. Small Business Administration in these tough economic times.

Karen's ties to Maine are particularly strong, and she has worked hard to strengthen the small business sector of our State.

I can speak from first-hand knowledge of Karen's drive, determination, and dedication to helping small businesses based on our work together on legislation last year. Karen was instrumental in helping craft the "The National Innovation and Job Creation Act of 2008," which former Senator Clinton and I introduced. This bill aims to spur the adoption of new technologies and practices that can accelerate economic growth and build a secure foundation for good, high-paying jobs. It would also facilitate the creation of cluster developments—geographic areas where inter-related economic activity is taking place. Businesses that locate in clusters build the foundation they all rely on to succeed, even as they compete with one another. Because of this, clusters are often at the heart of strong regional economies.

Karen has been a champion of cluster development in Maine. She helped Maine secure \$15 million in WIRED funding to further develop the composite and boatbuilding clusters, a project with the potential to create 2,500 high-quality Maine jobs over the next five to seven years. She is the Chair of the Governor's Council on Competitiveness and the Economy.

In 2006, Karen applied her leadership to the initiative for a \$50 million competitive research and development bond, which passed the Maine Legislature with strong bipartisan support and was approved by public referendum. She also sits on the Governor's Council for the Redevelopment of the Brunswick Naval Air Station, which recently went on the BRAC closure list, and serves on the boards of the Maine Technology Institute and the Maine chapter of the Nature Conservancy.

To anyone who knows Karen, her community leadership is no surprise. She has been a leader in the private equity and venture capital industry since 1983. She has taken a leadership role in the growth of more than 20 companies in consumer products, food, distribution, textiles, manufacturing and industrial component sectors. Karen was a co-founder and managing director of Solera Capital. She served as Chief Operating Officer of E.S. Jacobs and Company, a private equity firm with investments of almost \$600 million, 4,100 employees, and 32 plants. Karen truly shares the spirit and know-how of small business owners.

If confirmed as SBA Administrator, Karen will be charged with managing many of the new tools provided for SBA as part of the American Recovery and Reinvestment Act. This stimulus package of investment and tax relief has many provisions

to help America's small businesses recover, grow, and expand. It provides more than \$730 million to SBA to make changes to the agency's lending and investment programs. Of that amount, \$375 million will be directed to reduce or eliminate fees on SBA loans and to increase the SBA guarantee on certain loans. These funds will help small businesses keep their doors open and thaw secondary markets for SBA-backed loans.

I strongly support Karen's nomination to be the next Administrator of the SBA and look forward to working with her to address the many challenges confronting our nation's small businesses.

I urge the Committee to approve her nomination.

Senator SNOWE. I join the Chair in welcoming Ms. Mills' husband, Barry, who has quickly earned a sterling reputation for his incomparable vision in leading Bowdoin College as the President of that college. There is no question that he has done an extraordinary job for this venerable 215-year-old institution. And no, I wasn't there at the founding, thank you very much. [Laughter.]

Senator SNOWE. Together, Barry and Karen have truly been both halves of a remarkable duo, with three exceptional sons, as well, who although they are not here today, I certainly want to recognize them. William, we are so thankful to learn that he is making a tremendous recovery from his surgery and he continues to be in our thoughts and prayers. George is in Brunswick High School, and I am sure he wishes he was here today rather than in school. And Henry, who is at Williams College, who also excelled as an intern in my Portland office.

Let me also acknowledge what a pleasure it is to have some additional honored guests in the audience. One of Karen's good friends and good friends of mine, Mary Herman, who is the wife of Maine's second independent Governor, Governor Angus King, and my immediate successor as a former First Lady of Maine. She has made exceptional contributions to our State with tireless efforts across the board in her championship and advocacy for women and for children, for breast cancer awareness, for teaching and nursing. She did so much in so many ways, so it is great to have you here.

And to Katy Longley, the former Commissioner of Professional and Financial Regulation for Governor King during his administration and currently Senior Vice President of Finance and Administration and Treasurer of Bowdoin College. So we welcome you all and everybody here today.

Madam Chair, it truly couldn't be a greater pleasure to personally introduce Ms. Mills, not only because she hails from my home State of Maine, but because I could not believe more strongly that she is precisely the right person at this pivotal moment for our economy to assume the reins of the agency responsible for America's preeminent job generators, which is of course small businesses, the very entities that are going to lead us out of the morass and ultimately forge a path towards recovery.

As her record and her testimony will demonstrate, Karen Mills is a champion of creating business success. Not only does she have a stellar depth and breadth of experience that comes from a State where over 97 percent of firms are small businesses, Maine is also a true microcosm and laboratory for the issues affecting small businesses across this great nation.

And I can tell you firsthand from the many conversations that Karen and I have had as friends and talking about the state of small business, she brings a panoply of skills and talents to this



cornerstone position on President Obama's economic team, and that is why I am very proud to have recommended Ms. Mills as our next Administrator of the SBA.

For Ms. Mills, entrepreneurship is quite literally in her blood. Her grandfather was a box supplier to Tootsie Roll, who during the Great Depression took over controlling interest in the company, which he later passed on to his family and which, by the way, is still run by her parents, who are remarkably in their 80s.

And Ms. Mills determined early on to forge her own path of excellence, as the Chair has indicated, earning a Bachelor's degree at Harvard in economics, a Master's in business administration from Harvard, as well, where she was a Baker scholar. After obtaining her MBA in 1977, Ms. Mills began her 30-year career in business as Product Manager with General Foods Corporation, subsequently going to work for McKinsey and Company, which provided management consulting for various businesses.

But it was in 1983 as Chief Operating Officer that Ms. Mills began to focus on investing in small businesses and managing their operations, where she also had operating control of businesses with more than \$600 million in sales. But she understood the challenges. She understood what it was going to require for them to weather the economic storm. Indeed, during the harsh recession of the early 1990s, she oversaw multiple small manufacturing firms whose products ranged from hardwood floors to refrigerator motors to plastic injection molding. At that time, she spent countless hours on the shop floors helping manufacturers institute innovative methods to become more lean, thereby increasing their efficiency and productivity, not to mention their survival during that very difficult economic time.

In the late 1990s, Ms. Mills joined with two other women partners in forming Solera Capital, where she was also not only the co-founder, but Managing Director. It was a venture capital firm that focused heavily on investing in women-owned small businesses like Annie's Homegrown, an organic food company, and Latina Media Ventures, a mixed media company, all the more relevant to leading the SBA's women-owned businesses, which as we all know are the fastest-growing segment of our entire economy.

Ms. Mills was critical to these businesses' success, helping them to expand their product lines, find ways to become more efficient and grow their markets, and since helping to form Solera, Ms. Mills spent the next decade in various positions and capacities helping to provide financing and venture capital for small businesses in America.

In 2001, Karen and her husband, Barry, moved to Maine, when he became President of Bowdoin College, and it wasn't long before Ms. Mills' talents commanded notice. In fact, the current Governor, Governor John Baldacci, recruited her to serve as a member of the Governor's Council for the Redevelopment of Brunswick Naval Air Station, an instrumental role for our State given the loss of an estimated 6,500 jobs in the surrounding areas when that base ultimately and regrettably closes.

As is always her fashion, she hit the ground running, helping to spearhead successful efforts to secure a \$15 million grant from the Department of Labor to provide workforce training and develop-

ment in composite boat building within the Brunswick region. Since then, Maine has become a leader in building boats and marine products with new composite materials.

In 2006, Ms. Mills provided invaluable support to the Brookings Institute in developing a report charting Maine's future, an action plan for promoting sustainable prosperity and quality places. During that process, she traveled across the State with authors who were intrigued by her economic development proposals, which included the concept of using cluster networks or geographic concentrations of interconnected firms and supporting organizations that share knowledge and resources to innovate, create higher-wage employment, and spur regional economic growth.

Following the successful release of that report, Ms. Mills was asked to author another renowned Brookings report that focuses on the way the Federal Government can foster economic growth through the development of cluster networks throughout the entire nation.

Indeed, Ms. Mills has been a crucial advocate for the development of innovative jobs, serving as the Chair of Governor Baldacci's Council on Competitiveness and the Economy. Inspired by the success of the boat building in the Brunswick region, she recommended the passage of a \$15 million Maine Research and Development Bond to spur economic growth and innovation, and thanks to her work and to the work of others, that was a successful initiative in 2007.

So unquestionably, Ms. Mills' nomination could not be more well-timed, given her academic background, her private sector experience, and her extraordinary efforts over the past three decades in which she has been fully and totally immersed in the challenges of building businesses and creating jobs.

Let me also say, and one of the concerns that I have had and I know the Chair has, as well, all too often, small businesses are overlooked in the role that they play in our nation's economy. Frankly, that is something that we hope that you will be elevating in terms of that profile, because I happen to believe that small businesses, given the fact they represent half of all the workforce in America and half of the non-farm gross domestic product, that too few people recognize the role that they do play. They are underappreciated, they are unrecognized, and they are certainly unsung heroes of our economy, and that was a message that we conveyed to the President during the course of his Business Summit that he convened last month, in which the Chair and Ms. Mills attended, as well, and conveyed that sentiment, which is really crucial.

That is why Chair Landrieu and I feel very strongly in advocating for elevating the SBA Administrator position to cabinet-level status. It is vital to have a consistent, persistent, and constant voice at the table with the President, because it will give small businesses the economic stature and standing that they deserve in the nation's economy.

Karen Mills grasped what must be accomplished, that we must act aggressively to thaw the frozen credit markets, which is something we will discuss here this morning, as well, that is obviously inhibiting small business economic growth and also inhibiting our ability to pursue a path of recovery. SBA lending has been particu-

larly hard hit. While the SBA typically guarantees \$20 billion on an annual basis, that lending has now declined to less than \$10 billion. So Ms. Mills' vast experiences in venture capital and providing capital to struggling businesses and turning them into prosperous entities cannot be overstated, especially since it is long past time we begin to shore up SBA's flagship program, the 7(a) loan program, the 504 loan program that focuses on job creation, as well as the Microloan program.

In conclusion, while the undertakings at hand are monumental, I am totally confident that Ms. Mills will excel because of her impressive private sector experience, her passion in promoting innovation and competitiveness, and I have no doubt that she will lead the SBA into a new level that the small businesses deserve in this country and ultimately will benefit everyone in our nation, and particularly at this very transformational time.

So Madam Chair, I urge my colleagues on this committee to strongly support this nomination and I will also hope, and I know the Chair shares this sentiment, that we can confirm her nomination this week before we recess for the April break.

Thank you.

Chairman LANDRIEU. Thank you for that very thorough and beautiful introduction. It is our hope that we can conduct this hearing this morning and move very swiftly before the break for your confirmation by the full Senate.

Let me now turn to our colleague, Senator Shaheen.

**OPENING STATEMENT OF THE HONORABLE JEANNE  
SHAHEEN, A U.S. SENATOR FROM NEW HAMPSHIRE**

Senator SHAHEEN. Thank you very much, Madam Chair. I will be very brief this morning, but I wanted to echo your words of welcome to our nominee, Karen Mills, and to all of the Mainers who are here with you this morning, and of course to your husband. As a neighboring State, we share many of the same concerns and a special commitment to small business that I know both Maine and New Hampshire share. I am delighted to be able to welcome you this morning and I share the enthusiasm that we have heard from Chair Landrieu and Ranking Member Snowe for your nomination. I was very impressed when we had the opportunity to meet in my office in early February by your commitment to small business, by your understanding of the challenges that they face, and by your vision for what the SBA could become in the future.

You are taking over at a particularly critical time, as has been said. The challenges facing small business and the role of small business in the country are particularly critical right now. As I look at New Hampshire and the challenges that business in New Hampshire face and remember our history, in the early 1990s, it was the SBA that really kept so many small businesses afloat during our recession. Unfortunately, many of the resources and the personnel that were available at that time are not available today. So I appreciate your commitment to rebuilding a robust Small Business Administration and the importance that will have in getting the economy moving again.

I certainly want to commend the President for your nomination and for elevating the SBA to a cabinet-level position. I am going

to stop there because I want to allow more time for questions, but I just want to point out that one of the things we did was to ask on our website small business people from New Hampshire what questions they would like to have me ask of you this morning, so I have a number of very good, very thoughtful questions.

I will stop there so we can get to that aspect of this morning's discussion. Thank you.

Chairman LANDRIEU. Thank you, Senator. Excellent idea.

Now, if you would stand, Ms. Mills. Our committee rules require that the nominee testify under oath, so if you would raise your right hand.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Ms. MILLS. Yes.

Chairman LANDRIEU. Please be seated.

Thank you. Should you be passed by this committee and confirmed by the Senate, you know that you will be asked to testify on a variety of different matters from time to time, to provide information to this committee and to others. Are you willing to appear and testify before any duly constituted committee of Congress when requested to do so?

Ms. MILLS. Yes.

Chairman LANDRIEU. And I am going to ask you one other question, then we will get to your opening statement. Just to follow up and to reiterate how important Senator Snowe and I feel about this, we have sent not one, but two letters to President Obama requesting that he issue an Executive Order within the first 100 days to elevate the SBA to a cabinet-level position. Considering this is day 72, we have 28 days left. My question is, have you talked to him about this personally, and if so, can you give us a sense of what the response was, and if not, do you intend to speak with him personally about it?

Ms. MILLS. It is the President's decision about who he wants in his cabinet. He has assured me that, as you know, I will be part of the NEC, the National Economic Council, and be very much a part of all of these discussions and that small business will be very much a part of the agenda.

Chairman LANDRIEU. Thank you. We will hear your opening statement at this time and then resume the questioning.

**TESTIMONY OF KAREN GORDON MILLS, NOMINEE TO BE ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION**

Ms. MILLS. Thank you very much. Chair Landrieu, Ranking Member Snowe, members of the committee, I am honored to be under consideration to be the head of the Small Business Administration. I would like to thank Ranking Member Snowe for her kind introduction and also Senator Collins, who could not be here today, for all her support. I would also like to express my appreciation to President Obama for this opportunity to join his economic team at this time of historic challenge.

Building and growing a small business has been a defining tradition in America. Many of us are children and grandchildren of hard-working immigrants, men and women who are able to start and grow their own business. Small business is at the heart of the

American economy. There are over 26 million small businesses in this country and they create 70 percent of the new jobs. This means that to find our way out of the current economic crisis, we have to find ways to help small businesses stay in operation and even expand.

There are at least two kinds of small business that are served by the Small Business Administration. The first are the small businesses of Main Street, and these are the dry cleaners and the restaurants and the car repair operations that are part of our daily lives. They depend on the credit from the SBA's 7(a) and 504 programs and from advice from over 14,000 SBA affiliated counselors.

The second type are the high-growth, high-impact businesses which have the potential to grow to the next American giants. Did you know that Federal Express, Apple, and Intel were all at one time supported by the SBA? Others include AOL, Ben and Jerry's Ice Cream, and UnderArmor, which is a company that makes high-performance sporting clothes which my family purchases in great quantity in this season, which is lacrosse season. And it was started in a basement in Georgetown, not far from here. For all these enterprises, from Main Street shops to the next potential Intel, we know one thing. If the SBA can help these small businesses grow and prosper, jobs will be created and America will be able to compete anywhere in the world.

Today, however, small businesses face an uncertain future. The recession has reduced demand for their goods and services. With the credit crisis, it is increasingly difficult for them to find the financing they need for normal business activities. Currently, loan guarantees from the SBA are down over 50 percent. There are several reasons for this decline and they are interrelated: Lower creditworthiness of borrowers, tighter lending standards, lack of liquidity in bank balance sheets, and a frozen secondary market for SBA guaranteed loans.

The Congress and this committee deserve great praise for recognizing these problems and for incorporating important measures for small business in the Recovery Act. And as you all know, on March 16, the President committed \$15 billion from the Troubled Asset Relief Program to be available to purchase SBA guaranteed paper in the secondary markets. This effort, in conjunction with the SBA's 90 percent guarantees and fee reductions, will go a long way to unlocking the credit small businesses need.

Senators today, small businesses are suffering and the SBA has lacked the leadership and the resources to help them. These are problems we can fix. If confirmed, I will work on three important fronts.

First, the SBA must continue to execute the plans in the Recovery Act.

Second, we must reinvigorate the agency by attracting a strong and passionate leadership team and investing in the information technology the agency needs to operate.

Finally, we must, and I will, act as an advocate for small business across the administration. As Chair Landrieu and Ranking Member Snowe have suggested, I will coordinate with other agencies, including Commerce and Labor and Energy, whose programs also affect small business.

As Senator Snowe mentioned, I have a long history of being deeply involved in small business. I was there on the factory floor in Arkansas and in Ohio, working to weather the recession of the early 1990s. That is why I understand what our small businesses need today to survive this downturn and to prosper in the years ahead.

The sum of my experience is this. I am a believer in American small business. I am a believer in America's ability to manufacture goods and services that can compete across the world. And I am a believer in America's spirit of entrepreneurship. This spirit is one of our country's greatest assets and we need to cultivate it today, now more than ever.

Thank you for considering my nomination to head this agency during these difficult times. If confirmed, I pledge to pursue these tasks with the utmost energy and to be your partner in giving small business the help they need to thrive, to grow, and to put Americans back to work.

I know that Senator Snowe has already introduced my family. My husband, Barry, who is the President of Bowdoin College, is here today, and we do have three boys, George, who is back at Brunswick High School, Henry, who is at Williams College, and our son William graduated from Columbia and, as Senator Snowe said, is recovering from an operation and doing quite well and I want to thank you for all your kind thoughts and prayers.

Thank you very much, and I would be happy to take questions. [The prepared statement of Ms. Mills follows:]

PREPARED STATEMENT OF KAREN GORDON MILLS

Chair Landrieu, Ranking Member Snowe, and Members of the Committee, I am honored to be under consideration to become the Administrator of the Small Business Administration. I would like to thank Senator Collins and Ranking Member Snowe for their kind introductions. I would also like to express my appreciation to President Obama for this opportunity to join his economic team at this time of historic challenge.

Building and growing a small business has been a defining tradition in America. Many of us are the children and grandchildren of hard-working immigrants—men and women who were able to start and grow their own businesses. This is a legacy I am proud to be part of and want to promote for our future.

Small business is the heart of the American economy. There are over twenty-six million small businesses in this country and they create 70 percent of the new jobs. This means that to find our way out of the current economic crisis, we have to find ways to help small businesses stay in operation and even expand.

There are at least two kinds of small businesses that are served by the Small Business Administration. The first are the small businesses on Main Street—the restaurants, the drycleaners, and the car repair operations—that are a part of our daily lives. These businesses depend on credit from the SBA's 7a and 504 programs and advice from more than 14,000 SBA affiliated counseling centers.

The second type are the high growth, high impact businesses which have the potential to grow into the next American giants.

Did you know that Federal Express, Apple and Intel all were at one time supported by the SBA? Others include AOL, Ben and Jerry's Ice Cream and UnderArmor—a company that makes high-performance sports clothing which my family purchases a great quantity of this time of year during lacrosse season—it was started not far from here in a basement in Georgetown.

These businesses all started out getting an SBA loan, a government contract or an SBIC investment.

For all of these enterprises, from Main Street shops to the next potential Intel, we know one thing: if the SBA can help these small businesses grow and prosper, jobs will be created, and America will be able to compete anywhere in the world.

Today, however, small businesses face an uncertain future.

The recession has reduced demand for their goods and services. With the credit crisis, it is increasingly difficult for them to find financing for normal business activities and expansions.

Currently, loan guarantees from the SBA are down by over 50% from their levels a year ago. There are several causes of this decline—and they are inter-related: lower creditworthiness of borrowers, tighter lending standards, lack of liquidity in bank balance sheets, and a frozen secondary market for SBA guaranteed loans.

The Congress and this Committee deserve great praise for recognizing these problems and for incorporating important proactive measures for small business in the Recovery Act. This Act reduces fees to both borrowers and lenders, increases the guarantee percentage on SBA loans and works to unfreeze the secondary markets. In addition, many viable but struggling businesses will get a \$35,000 lifeline to bridge them for 6 months of interest and principal payments—which the SBA will fully guarantee.

As you all know, on March 16th, the President committed \$15 billion from the Troubled Asset Relief Program to be available to purchase SBA guaranteed paper in the secondary markets. This effort in conjunction with the SBA 90% guarantees and the fee reductions will go a long way to unlocking the credit small businesses need.

If confirmed, I pledge to work as a partner with this Committee to fully implement these important recovery programs.

Senators, today small businesses are suffering and the SBA has lacked the leadership and the resources to help them. These are problems we can fix.

If confirmed I will work on three important fronts:

First, the SBA must continue executing the plans in the Recovery Act and get capital flowing again through the core SBA loan programs.

Second, we must reinvigorate the Agency by attracting a strong and passionate leadership team and investing in the information technology the agency needs to operate.

Finally, we must—and I will—act as an advocate for small business across the administration. As Chair Landrieu and Ranking Member Snowe have suggested, I will coordinate with other Agencies, including Commerce, Labor and Energy, whose programs also affect small businesses.

I have a long history of being deeply involved in small businesses. In the mid 1980s, I was responsible for a number of traditional manufacturing businesses—from plastic injection molders in Ohio—to a sub-fractional motor company in Arkansas.

I was there on the factory floor when we had to weather the recession of the early '90s. Those experiences give me a deep understanding of what our small businesses need today to survive this downturn and to prosper in the years ahead.

Since then I have helped grow companies in organic food, and women's media, and spent time in rural Maine helping our boat builders use composite technology to help them compete throughout the globe.

The sum of my experience is this: I am a believer in American small business. I am a believer in America's ability to manufacture goods and services that are world class, and I am a believer in America's spirit of entrepreneurship. This spirit is one of our country's greatest assets and we need to cultivate it today, more than ever.

Thank you for considering my nomination to head this crucial agency during these difficult times. If confirmed I pledge to pursue these tasks with the utmost energy, and to be your partner in giving small businesses the help they need to thrive, to grow and put Americans back to work.

Before taking your questions I would like to introduce to the Committee my family. My husband Barry is the president of Bowdoin College and is here with me today. We have 3 boys. George is 16 and is home at Brunswick High School. Henry is 20 and is at Williams College. William—our eldest and a graduate of Columbia University is home recovering from an operation as some of you know and is doing quite well. We would like thank everyone for your kind thoughts and prayers on his behalf.

Chairman LANDRIEU. Thank you very much.

Let me begin. This issue was raised in the Post this morning, so we would just as soon start off with the efforts that our committee has made along with the House committee to work closely with the administration to make suggestions about what should be included in the stimulus package in thawing the credit markets for our Main Street businesses. And one of the things that quickly came

to our attention in a variety of different ways was how the secondary market was frozen, and we congratulate and commend the President for quick action to set aside or to allocate \$15 billion for that effort.

But all the details of that have not yet been worked out and we want to make sure that that program actually works, gets the job done. What suggestions would you have to us and to the President to make sure that that money is allocated appropriately for that effort, which is very, very significant in our number one job right now, which is to get this credit market moving for Main Street businesses?

Ms. MILLS. Well, as this committee noticed and spoke about as early as last December, one of the main problems and impediments to getting credit to small business is that the secondary markets are frozen. And as it turns out, all of the roundtables and groups and hearings have pointed to this issue as being fundamental to the problem that banks have, and that is because if banks, particularly community banks, lend and they have loans on their balance sheet, usually they are able to sell them into a fluid, liquid secondary market, and that secondary market is not operational despite the fact that all the paper in it has SBA guarantees.

So one of the important first priorities needs to be, as you all pointed out in the Recovery Package and in other methods, is to unstuck that market. Fifteen billion dollars has been allocated by the President from the Troubled Asset Relief, the TARP program, to go into that market and provide a guaranteed market for loans that are going to come—that are going to be made by banks, community banks, and thereby giving them fresh capital to lend to small businesses.

So I think we are focused on exactly the right issue, the right problem, and the capability will be there. The details of that program have actually not yet been announced, so they will be forthcoming, and I know that Treasury is working very closely now with the SBA and others to make sure—and the marketplace to make sure that this program will be successful and I have every confidence that it will be.

Chairman LANDRIEU. Well, one of the immediate benefits of your swift confirmation would be that you will have a seat at the table to make sure that those details are worked out in a way that is as beneficial as we hope it could be when we suggested it for the small businesses across the country that are really waiting for that relief.

Let me ask you, in the stimulus package, as well, there were provisions for raising the guarantee from 75 percent to 90 percent and eliminating some of the fees associated with borrowing. In your mind, are those things going to have an immediate impact on the situation and is there anything in addition that we could suggest as we move forward with additional stimulus support and help?

Ms. MILLS. Once again, thanks go to this committee for putting those fee reductions and the 90 percent guarantee into the Recovery Act. In fact, on March 16, while at the same time as the President announced the \$15 billion, he also announced that those programs from the SBA, the 90 percent guarantee and the fee reduction, would be operational. And, in fact, they are operational and



we have already—the SBA has already made loans of \$1.4 billion under those new programs.

Chairman LANDRIEU. Okay. I would like to talk for just a moment about the size of the SBA, and as we focus on quality, but in some measure, the strength of an organization, I mean, you can only accomplish your work with the right number of staff and I think we all recognize that the agency has been reduced from 2,800 full-time employees in 2001 to around 2,000 full-time employees now. In fact, in the District Office in New Orleans, we had 21 employees. Now, we are down to about ten. We had an unprecedented challenge for small businesses before the recession hit around the country, since we were fighting our own economic downturn with the results of the storms of Katrina and Rita.

To ensure that we can reenergize this agency, I would like to know what some of your specific plans are as you have been working with the transition team and have been looking at this position for some time. Can you share with us the particular program areas that you would like to see upgraded or improved? I would like you to share at least two or three of those initiatives with us at this time.

Ms. MILLS. Well, thank you, Senator. This is a great agency. It has, you know, a bone structure that goes across the country. It does \$84 billion of loan guarantees in its portfolio. It has 14,000 counselors. It has over 100 district operations and offices. So it has enormous reach.

But as you all know and have noted, it has been underfunded over the last eight years. So the personnel in the agency have gone from 3,000 to 2,000 and the budget, as you mentioned, has been cut by 28 percent. Thank you for the attention and the budget memo, I think that you all wrote, which would raise that amount in this next budget coming up.

There are a number of things that can be done to make these operations more robust. A couple of them that I think are really critical. The first, of course, is the core loan operations and getting those core loan operations more distributed around the country. And we have talked about this, but one of the key objectives will be to add to the number of banks that we have that are SBA lenders. This number has been going down. We are apparently in about 50 percent of the Federal banks, but in a very low percentage of the State banks and the community banks and we can have greater penetration. So that would be one objective.

The other is to improve our front end, which is our connection to borrowers, as well as to lenders, using all of the technology that the new information systems might be able to give us and the web and to make the program more accessible, more seamless, more paperless, and easier to use.

And one of them that I just have to mention that I think you have given us money for in the Recovery Act that I would like to put some focus on is the Microloan program. At this time, we can, I think, reach some very important constituencies. Women tend to be high users of Microloans, and I think we can use them for veterans, as well.

Chairman LANDRIEU. Thank you. I have some additional questions, but I want to make sure that the other members have an op-

portunity, so I would like to turn to Ranking Member Snowe. And let me welcome Senator Bayh and Senator Cardin, who have been very active members of this committee, and particularly congratulate again Senator Cardin for his good work on the Budget Committee to try to at least reserve some room for the SBA to grow and expand and to get much better under your leadership, Ms. Mills. Thank you, Senator Cardin.

Senator Snowe.

Senator SNOWE. Thank you, Madam Chair.

Ms. Mills, I couldn't agree with you more in terms of the order of your priorities as you assume this position in the SBA. Executing the provisions of the stimulus plan have to be front and center, as you have indicated. Truly critical, and like the Chair in indicating concern about the TARP program, I believe this illustrates sometimes the difficulties of getting these programs up and running.

In looking at the schedule of the various provisions that are in the stimulus plan, there are only two that had a mandated implementation date. One has been implemented in the 7(a) guarantee. The other one is the Business Stabilization Loan, which concerns me because obviously that is a lifeline for small businesses who are viable but otherwise need some Federal assistance in order to get through these very difficult times.

My question to you is, in looking through all of these various provisions, from the 504 job creation requirements, the 504 refinancing, the expansion of Microloans, the secondary markets, and so on, all of these provisions have yet to be implemented. Now, some have been designated between April 3 and 16, or the end of April, some for the end of May. I believe those deadlines are far too long. Frankly, they all should be implemented within a month. I strongly advise that you ensure these provisions are implemented very quickly, because I don't think that we can afford an economic vacuum when it comes to small businesses who already, as you well know, are shuttering their doors all across Main Street in America.

And so it concerns me that there is going to be this lag time, and now coupled with the TARP problem, and I will get to that in a moment, but I was wondering what would be your view in terms of getting these initiatives up and running within a month. We need to have an aggressive time table, and when I see the dates on the projected implementation, from the end of April to the end of May and so on, and one that was on March 5th for the Business Stabilization Loan, it truly does concern me that we won't do the things that these programs are designed to accomplish immediately and urgently.

Ms. MILLS. Senator, I absolutely agree that we must make our first priority to implement these provisions in the Recovery Act. As you know, there are a number of them, but one of the ones that you just mentioned, this Business Stabilization Loan, or the ARC loan, is going to be very important. It is \$35,000 of, we call it the bridge over troubled water, bridge financing, which would pay for interest and principal to a loan where the business is viable. So it is sort of the bridge from this difficult time through another six months. And that is a new program. It is absolutely in the process

of being designed and regulated, and one of the tricky things, of course, is to interpret what is viable and make sure that those loans go out in a responsible way, and that is going to be something that I will make an absolute first priority when I join.

Senator SNOWE. I appreciate that, because in just talking to some Maine bankers yesterday, they were indicating that some of these initiatives will be truly effective and crucial and helpful to small businesses, and I believe it is key is to getting them up and running as quickly as possible, and I am always concerned about bureaucratic inertia. There are always things that take your ultimate objectives in the bureaucracy, and so you have to be the driver of this engine. I just want to make sure that this money is available and also that these initiatives are fully implemented as soon as possible because of the critical time and trying to avert job losses, as well.

Now, with the TARP program, based on this morning's story in the Washington Post, it was suggesting that somehow a body be created outside the government to purchase these loans as a way of getting around the restrictions that had been posed on TARP recipients regarding executive compensation. How would you view that, creating a body outside government?

Ms. MILLS. Well, at this time, as you know, the \$15 billion of TARP money is designed to be the purchaser of any loan that the SBA would make so that any bank would have the ability to sell to a buyer and know that the government would be there to purchase that loan. It is already SBA guaranteed. So it would be a purchase of an already guaranteed piece of paper.

The details of this program are not yet final, but they are very well along and in process and I would, as I heard the Chair ask me to before, want to be immediately active in constructing exactly the right—these are complicated provisions and regulations, and so it would have to be within the bounds of those. But I am very confident that a set of terms are going to be announced that will be positive for the market and that we will unstick this market.

Senator SNOWE. The President mentioned at the White House Summit that all of these initiatives were the first step, not the only step. Do you have ideas in terms of what should be the next steps beyond this? I mean, first, do you think that these will be effective and successful in and of themselves, or should we go further in taking additional steps, as the President indicated?

Ms. MILLS. Well, first, I think we need to not only implement the steps that we have, but measure the progress. So for the secondary market, we will know if we have unstuck it and we will know if new loans are being created. So there are a number of metrics that I believe might be very good benchmarks for the committee and for ourselves to look at on a routine basis, for instance, the number of new loans being made, the volume in the secondary market, and these are metrics that we track now and that are public. So these will be important.

It is quite possible that we will need to think about additional measures that would either reach banks that are not only SBA lenders, so that is one of the reasons we talked about finding ways to broaden our reach.

And the second area that we have talked a lot about is what do we do about the high-growth, high-impact companies which need different kind of capital to grow and perhaps in the seed and angel areas, those capital sources are drying up. So that would be a second area, I think, to worry about.

Senator SNOWE. Thank you. Thank you, Madam Chair.

Chairman LANDRIEU. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you.

One question, a variation of which I got from businesses from Strafford County down to Nashua, had to do with government contracting. As the SBA website notes, the world's largest buyer of goods and services is the Federal Government, with purchases totaling more than \$425 billion a year. Federal agencies are required to establish contracting goals for small business with at least 23 percent of all government buying targeted to small firms. However, a number of our small businesses have expressed concern that every year, billions of dollars in those Federal contracts that are intended for small business are diverted to large businesses, including Fortune 500 corporations. What can the SBA do to make sure that those government contracts really do go to small business?

Ms. MILLS. Well, I am a believer in the government contracting program for small business because I believe it is a win-win situation. It is very good for small businesses to have that set of contracts that allows them to get to the next level, and after that they can build their commercial business, their export business. And I believe it is good also for the purchaser of those goods and services, because when you contract with a small business, you can get the most innovative products, you can get the CEO and the leadership to work with you, and many women-owned businesses and other minority-owned businesses get a good start in this, as well.

So I think this is win-win. I think the programs are for small business. They are not for big business. So we have to ensure that we do not have slippage and that we monitor and have transparency about who is getting the contracts and make sure that the small business set-aside is for small business.

Senator SHAHEEN. Thank you. As I am sure you know, Congress recently passed a temporary extension of several SBA programs, including the Small Business Innovation Research Program, a program that has been very important to a number of New Hampshire businesses, from Crearie in Hanover to Vtech down in Nashua. The program across the country has enabled over 17,000 small businesses to conduct R&D projects, creating 1.5 million high-wage jobs. They have led to more than 55,000 patents and thousands of innovations that have met critical national needs at Federal agencies and resulted in commercialized products.

So the concern among some of those businesses in New Hampshire is what is your commitment to support long-term reauthorization of the SBIR program in its current form, which they and I think many people would agree has been very successful?

Ms. MILLS. Well, I have to agree, and I know you have just said many statistics, but I have to just say a couple more because this is an extraordinarily successful program, and over its time, you know, small businesses in general make 12 to 14 times the number

of patents per employee as large companies. This is where our innovation comes from. Over 50 percent of the SBIR Phase II companies have a product that goes to commercialization. So how do we turn innovation into jobs? SBIR plays a critical role.

And there is also data—I know the National Academies have a very good study out recently supporting this program and saying it meets the objectives of Congress and also has very strong success in creating innovation, creating jobs, but is a great metric that says the SBIR companies do four times the number of jobs and grow four times as fast as in a comparable sample. So that was a separate study that I thought was really powerful.

So we would want to—they also say that the form that it is in now, where it is distributed into agencies, there is some flexibility on how each agency does it, and it is competitive, is also very powerful. So I would be very supportive of continuing this program.

Senator SHAHEEN. Thank you. I guess—I am sure you are aware that one of the concerns about the program ongoing is whether small businesses in which venture capitalists have more than a 49 percent stake should be eligible for SBIR. Given your background, I am sure you have particular thoughts about that particular provision. Can you reassure people who may be concerned about changes there what you would support relative to that issue?

Ms. MILLS. Yes, I can. I think there are two important principles that we have to think about. The first is that this program is for small businesses. It is not, once again, for big businesses, and we can't do something that crowds out the small business. On the other hand, the second principle is that we want the very best businesses. So we don't want to somehow, because of arbitrarily or in some way restrict ourselves from small businesses who somehow get excluded, but they are some of the most promising businesses and should be included.

In those two principles, I think using those principles, I don't have a fixed view, but I do know that the National Academies is coming out with a suggestion and that this committee has in the past looked at various suggestions which include thresholds of restricting what percentage of the allocations in various areas can go to venture capital majority-owned businesses and thereby not have the crowding out program.

So I do not have a fixed point of view, but I do think those two principles should guide us as we think it through.

Senator SHAHEEN. Thank you.

Chairman LANDRIEU. Senator Bayh.

**OPENING STATEMENT OF THE HONORABLE EVAN BAYH, A U.S. SENATOR FROM INDIANA**

Senator BAYH. Thank you, Madam Chairman.

Ms. Mills, welcome once again. I can't begin to tell you how delighted I am at the prospect of your taking the helm at the SBA. I noted your academic background, with double degrees from Harvard, which we in the Midwest, Madam Chairman, would refer to as the Indiana University of the East. [Laughter.]

Senator BAYH. So your academic credentials are impeccable and I really enjoyed our discussion about how you intend to modernize and streamline the management of the operation. As you say, there

is a great bone structure there, but it needs to be updated, and I think the consumers, the constituents, the small businessmen and women, the entrepreneurs who utilize those services will really appreciate your effort to make it more responsive to their needs. So I want to thank you for that.

And finally, I note with great interest that in addition to all of that, you have a Hoosier on your staff, so you are hiring the best and we appreciate that.

Three quick questions. Madam Chairman, I want to follow up on something that you mentioned at the beginning and that was that it is important for our small businessmen and women to have a seat at the table, and I certainly agree with that. You outlined the budget cuts. Several others have mentioned the budget reductions that took place under the last administration. I think something like 27 percent of the budget was cut under the previous administration, not exactly placing a priority on the needs of small businesses and entrepreneurs. The Department was also demoted in status from a cabinet-level position to a non-cabinet-level position.

I would like to ask your opinion, Ms. Mills. Do you think it would be important and appropriate to elevate once again the role of the Small Business Administration to full cabinet-level status to give you a seat at that cabinet table?

Ms. MILLS. Well, Senator, I am delighted to be here and I also want to say I enjoyed our conversation, particularly about innovation, where you have been a leader in the clusters and in other innovation activity and in your fairs and your job fairs that you have in Indiana.

Small business is related to so many of the other activities that happen around the administration and it is an important part of the economic policy because, of course, that is who creates many of the jobs. It is important because a trained workforce is critical for small business. At Veterans, we have connections with our programs to veterans. We want to do many things with Commerce in innovation as well as in trade, where they have trade missions. In Agriculture, many of the small business programs overlap.

So it is important that there be—that small business be part of the discussion in all of those areas. Those discussions will take place many places. I think one of the critical tables, as I understand it, is at the National Economic Council, which I will be a member of.

Senator BAYH. I understand this is ultimately a call for the President and it would sound a little selfaggrandizing for you to come out and agree with it just to my question. However—  
[Laughter.]

Senator BAYH [continuing]. On behalf of most of us here, we want to help you out because we think it is important. Ninety-seven percent of the businesses in Indiana are small businesses. The vast majority of Hoosiers work for smaller companies. And as you point out, they are among our most innovative and most rapidly-growing companies. So at least speaking for myself, I would like to see small businesses represented at that cabinet table, so we are trying to give you a little wind at your back, and I know you can't comment about that.

You mentioned innovation, and Senator Shaheen rightfully brought it up. As you know, I have worked in that area, as have you. There is a proposal to try and double the amount of money that goes to the set-asides by government entities for small business innovation, from 2.5 percent to five percent, to really focus on those most rapidly-growing companies where a lot of the innovation does take place. I would like to ask if you have an opinion about that proposal, to double the amount of resources going to small business innovation.

Ms. MILLS. As I said earlier, the SBIR is an incredibly successful program and it does seem that we could have greater capacity, that we could use greater capacity in many of the areas. So it would be something that I would like to work with the committee on and see what the appropriate level would be.

Senator BAYH. Thank you. Finally, before my time expires, it was really—I thought it was a nice symmetry. The President made his last stop before the election in Indianapolis, Indiana. He made his first trip outside of Washington as President back to Indiana. That was the good news. He did not forget us.

The unfortunate news was that he came to Elkhart because we have the highest unemployment rate of any county in the country in Elkhart County, Indiana. It is above 18 percent right now. That is because we make manufactured housing there, which is struggling. It is also because Elkhart is the center for RV production in the country, and that has been hard hit. I think the unemployment—about half the people in the industry have been laid off now, so it is really quite severe.

You pointed out, and I want to congratulate you for some of the steps that have already been taken to get business loans to small businesses out the door already and to reduce the fees. There is one thing that would be particularly helpful for the small businesses, the working men and women who work in the RV industry in Elkhart County, and that is to make the loans eligible to purchase floorplan inventory. That would be very helpful for a time when they are struggling. I understand they are now not eligible for that. I would like to ask for your help in making them eligible for that. Do you have an opinion about whether we can do that?

Ms. MILLS. Thank you, Senator. The floor plan inventory in the RV industry is a very important question and it is also a parallel question in the automotive sector, as well, because the same issue is happening with the car dealership inventory, and I would be very interested to look at that quickly on joining and see what the possibilities are to help.

Senator BAYH. Thank you, Ms. Mills. My time is expired, Madam Chairman, but I would just say this. These people are hurting. The President came to Elkhart, wanted to help. This is one way we can provide real relief for these people right now, so I would like to work with you to make that happen.

Chairman LANDRIEU. Thank you, Senator, and I would like to follow up as I recognize Senator Cardin. We had some very moving testimony in this committee just two weeks ago by some small business owners and one of them was a car dealership, very proud to have run his business, which he created with his wife, for over 20 years. Senator you raised an excellent point because there is a

real need for us and the SBA to focus on dealerships, particularly as Congress reaches out to provide help to the manufacturers. The dealers and the small businesses and the parts suppliers that are down the food chain don't feel like they are getting a great deal of attention.

So I know that it is hard to pick out one sector because there is so much shared pain across the country, but I am glad that Senator Bayh raised that point and I wanted to just reiterate and ask you to focus particularly on that industry.

Senator Cardin.

**OPENING STATEMENT OF THE HONORABLE BENJAMIN L.  
CARDIN, A U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Well, Madam Chair, thank you very much. Ms. Mills, it is a pleasure to have you before the committee and I appreciate your responses today.

Let me underscore a couple points that have been made. I have had recent town hall meetings and meetings with small business owners in Maryland, and they are very well attended. There is a common theme that small businesses in Maryland and around the nation are in trouble and they are in desperate need of an SBA that is going to be their advocate, that will be very open with the administration and Congress as to what we need to do to expand opportunity for small businesses in our country. They raise issues from the availability of credit to how government contracts work, what obstacles are in the way, the use of bundling and prime contract issues to negate some of the effectiveness of our set-aside laws.

Several of us have mentioned this, but let me just put my expectation on the table, that we will have an Administrator who will be the advocate for small business, not just within the administration, but with Congress, and that you will not only look for ways to use the tools that you have available directly, such as guaranteeing loans, but also that you will work aggressively with Federal agencies on the procurement laws.

There is every excuse imaginable used, particularly in tough budget times, and procurement officers in agencies will say, well, we have a comfortable relationship with this contractor, and by the way, there are subcontracts going to these smaller companies, when in reality it is really bundling that is denying the direct contracts that are important for small business growth.

So I hope that you will look at this position as being an advocate and providing independent information that at times may differ from what we receive from other Federal agencies, so that we can do our job in Congress and make sure the small businesses are, in fact, getting the benefits of the laws that we pass.

I will just mention one other area and I will invite your response. When you have a growing pie, it should be easier. And now we have passed the American Recovery and Reinvestment Act, which presents enormous opportunities for contracts around the country. There should be a Federal agency that is charged with saying, did small business get its fair share of this economic opportunity?

Ms. MILLS. Well, Senator Cardin, I think we really have to give you many thanks for what you did on surety bonds in the Recovery



Act, because surety bonds are a way that small contractors are able to come and bid on the infrastructure, and for various reasons in the tight credit markets, surety bonds were less and less available and also the limits were too low. And I know that you made an enormous effort to—and were successful to raise those limits and to have surety bonds be an important part, and they are getting very good reception in the marketplace already. So hopefully this is already taking place. We have anecdotal information and hope to have more metrics, as well.

I am a believer that government contracting and government contracting for small business, and as I said, I think it is win-win. I think that small businesses win, but I also think that the agencies win because you get the most innovative products, you get—but sometimes agencies don't know how to buy from small businesses. It is more troublesome. It is more work. What if they go out of business?

So one of the things that we might think about is improving and increasing the number of procurement reps and the training for the agency procurement officials. And the President has put out a big initiative on procurement and I would hope and will work to make small business an important part of that new initiative so that we can get the most innovative products and services to our Federal agencies.

Senator CARDIN. Let me mention the second issue that is also under your portfolio, which is to make sure we do what is right for minority businesses, women-owned businesses, veterans businesses, and I am going to be asking from the SBA statistical information as to how well we are doing in meeting our obligations for these businesses. This is to put you all on notice. We could do a lot better. We made some progress, by the way, in the last Congress, and I want to see us continue to make progress to help vulnerable small businesses.

The last point is the HUBZone issue. I would like to get your view on that. There has been a critical GAO report as to how the program is operated. I think the HUBZones are critically important for underserved and vulnerable communities, and the program provides unique opportunities for diversity within the small business community and in our neighborhoods. It needs attention, and I would just urge you to take a look at this program and come back to us with ways that we can maintain the HUBZones, but make them even more effective.

Ms. MILLS. Well, thank you, Senator, and I am glad to hear that you mentioned statistics, because I am a metrics-oriented person and will look for ways to be communicative using those kind of metrics so that we know what kind of progress we are making, particularly in these critical areas of both the minority and the business and also in making sure that we solve the problems that were in that report on HUBZones.

Senator CARDIN. Thank you. I appreciate it.

Thank you, Madam Chair.

Chairman LANDRIEU. Thank you.

Senator Hagan.

Senator HAGAN. Thank you, Madam Chairman.

**OPENING STATEMENT OF THE HONORABLE KAY HAGAN, A  
U.S. SENATOR FROM NORTH CAROLINA**

Ms. Mills, it is a pleasure to have you here today and I am very thrilled that you have accepted this nomination for the small business. It was great to meet you in March and I think that we share a commitment to really help small business throughout America. We have got to work together on this. We have got to be sure that we can provide targeted assistance to small employers, which to me is a central element of the short-term economic recovery and long-term American reinvestment.

I am from North Carolina and recent SBA data indicates that there are more than 173,000 small businesses in North Carolina. They represent 98 percent of the State's employers and 48 percent of the private sector employment. And most importantly, in recent years, the small business area created 55 percent of the State's net new jobs.

So many of these small businesses, though, are in serious trouble. Many of them have closed their doors. In particular, the Eastern part of North Carolina, where they have been so dependent on the textile industry, a lot of the small suppliers to those industries are no longer in business. And obviously, as our national economy continues to struggle, I hear every day from small business owners throughout North Carolina that they have fallen victim to forces pretty much outside of their control. And with consumers tightening their belts and reducing spending, I think these small businesses have lost previously reliable lines of credit, and we heard that in testimony just last week, and obviously access to the capital financing required to maintain and expand their businesses and operations.

While this committee has moved swiftly to provide additional tools to the administration to provide immediate relief to these small employers, I think it is essential to promote and deploy these new provisions as quickly as possible, and obviously I am concerned about what was written in the Washington Post just this morning.

But beyond these short-term fixes, I am anxious to be sure that we strengthen key SBA programs and ensure that you have the staff and the resources that you need to ensure that you can serve as a champion for small businesses across our country.

I do have just a few questions. I want to follow up on Senator Cardin's question on the contracts for small business, and in particular minorities. I met with a group of minority contractors just this past weekend in North Carolina and they are very concerned that they want to be sure that they have access to the jobs under the TARP and the infrastructure, and I was just curious if there is any way we can facilitate anything to help them, one, with the bonding requirements that I am sure are necessary—that has been a huge problem for minority contractors in the past— and if there is any sort of training and outreach that can be provided on a State-by-State regional basis to help in particular minority contractors.

Ms. MILLS. Thank you, Senator. I enjoyed very much our visit, as well, and particularly on something that you had mentioned to me, a firm called Self Help in your area, which we looked into and

does do Microloans and a whole lot of things with whom we are going to try to establish a relationship, so thank you.

Senator HAGAN. Very good.

Ms. MILLS. Thank you for that.

On some of your questions, how do we get some of these contracts to minority contractors and others to make sure small business has their share of the new activity? Senator Enzi is not here, but he had a program that I hope he doesn't mind if we use as a model going forward where he invites a number of outside contractors, large companies who are going to do—or large Federal contractors to the State and he has small business fairs to make matches between them. And it would be interesting in some of these major contracts that are going to be let to see if we can learn from his model and sort of proactively, maybe as the SBA, sponsor some of these fairs along the same lines.

Senator HAGAN. I think that would be critical, because these companies are very anxious to have a seat at the table and to get obviously some of this business.

Also, Senator Shaheen talked about the Small Business Innovation Research. That, as well as the Small Business Technology Transfer, those two programs are particularly important in North Carolina's high-tech industry. An indication of the essential role these businesses play in my home State, the one North Carolina small business program awards State matching funds to North Carolina businesses that have received either an SBIR or an STTR program award by the corresponding U.S. Government program. And between 1999 and 2005, those awards more than doubled, from 56 to 106, and the dollars tripled from \$14 million to \$41 million. And the State saw a 78 percent increase in the Phase I Federal SBIR awards to our small businesses in 2008.

You have talked a little bit about working with the— what your goals are in this area, but my question relates to how do you plan to work with the Department of Health and Human Services to ensure that the stimulus funding provided recently by Congress for critical health research is utilized in keeping with the SBIR and STTR requirements.

Ms. MILLS. As I understand it, the new funding does not have the same SBIR set-aside, and one of the things that is before us now is to try to do what I talked about, to show in those competitions that the benefits of including small businesses proactively, you know, the numbers are very strong in terms of patent production. They really lead the commercialization.

One of the things we care about when we care about job creation is not just to spend money on research and development but actually to take it through commercialization and create jobs, and that is a place that small companies actually have a very important role.

So I think in this case, it will be a matter of leveraging some of the existing programs that are out there and the infrastructure that is out there already for SBIR which allows small companies to get support and access to some of these grants and to know that they exist, even if there is no formal set-aside.

Chairman LANDRIEU. Thank you. I think we have time for a short second round. I do have a few more questions I would like to ask.

One is on an issue that this committee has spent a great deal of time on over the last several years and that is the issue of health care for small businesses. As you know, it is a primary focus of this new President to provide a system of health care that is affordable and accessible to all Americans. Small businesses continue to testify before our committee and say, yes, the credit market is an issue, but consistently on every panel they raise the health care issue as well, whether we ask the question or not. They indicate that they need help with spiraling health care costs.

So I am assuming that one day, we are going to move through this recession and be back to normal business in America. We remain hopeful. But even when that happens, if we don't tackle this health care issue, it still is going to be a burden on small business. Do you have any suggestions as to how we might proceed specifically, and if not, would you care, though, to comment about your understanding of the situation and let this committee know at this time what kind of role you intend to play in helping shape some of those policies for small businesses that are depending on us to come up with some solutions for them.

Ms. MILLS. Thank you, Senator. Health care does come up now as the number one or two issue in pretty much every small business survey, and that is because, as you know, small businesses depend on this relationship with their employees and they need to provide these kind of benefits in order to have strong, well-trained employees that stay with them. And the costs are just unaffordable. They pay much higher rates because they don't have any economies of scale.

So I am very excited. The President has made this a priority, to fix health care, and in that has a very strong awareness and understanding about the issues about health care that relate to small businesses. And so there are a number of possible provisions. These plans remain to be fully constructed. But a couple of them that have been discussed in earlier versions have been pooling of the ability of smaller businesses to buy health care in a more integrated way that lowers the costs. That is something that clusters have thought about for a long period of time. And the other is some kind of tax relief for small businesses that provide health care, because many, many of the uninsured currently work for small business. That is another way to solve those problems.

But the President sees this, as you know, as an important priority and he clearly understands small business, as well, and the interrelationship between health care and small business's difficult cost structure.

Chairman LANDRIEU. Well, I just want to reiterate to this committee, and I have spoken to the Ranking Member on several occasions about this, that as Chair, I intend to remain focused on this area. I hope that we can work out a bipartisan solution to access to health care for the country and have this committee continue to be a voice urging some bipartisan compromise to give relief to our small businesses in America, which cannot sustain the rising cost and inaccessible terms of the current health care system.

And the passion, or I guess the emotion that runs through a small business owner when he or she is trying to provide health care to an employee that not only is an employee but an often dear friend when their child has cancer or gets a disease, that is very difficult on both the employee and the employer. It is very, very hard to take—you know that from personal experience. This is a real issue to people across the nation. And so I know that you will provide the leadership that is necessary to really meet this challenge.

And my second question is this. I just listened to Senator Bayh describe a county that has 16 percent unemployment, I just left a parish—we don't have counties, but a parish in Louisiana that is on the opposite end of the scale. We have a 2.9 percent unemployment, even in this time. Almost everyone that wants to be employed is employed in this county. It is basically the heartbeat of America's domestic energy industry.

So my question is this. Are you aware that there are counties that have 1.5, 2.5, well below the national average unemployment, and what they are threatened with now are potential taxes to a domestic oil and gas industry that threaten that viability. While this isn't the number one subject of this committee, are you aware of the contributions that the domestic oil and gas and domestic energy industry play to the small business viability of this nation and would you care to comment in any way? I hope you will come down and visit some of our parishes in the near future.

Ms. MILLS. Well, thank you, and as you know, I was hoping for an invitation and would very, very much like to come.

Chairman LANDRIEU. The food is excellent, by the way, so—  
[Laughter.]

Chairman LANDRIEU. I don't have to twist your arm, I hope, to come.

Ms. MILLS. No. I would look forward to it. And I know that these—well, first of all, it is great to hear about a county with very low unemployment. It makes me think, well, we should think about the business opportunities to go there or move there and how to go forward on that.

I would look forward to coming. I know that small businesses have an important activity in oil and oil services, as well, and it is one of the places that has traditionally been a strong Southwestern and also in Alaska, so there is lots and lots of small business activity in this sector as well as big business and it would be important to help.

Chairman LANDRIEU. Thank you so much.

Senator SNOWE.

Senator SNOWE. Thank you, Madam Chair.

Just to follow up on what Chair Landrieu was indicating about health insurance, it truly is a crisis for a small business and it has been consistently and persistently for many years. Unfortunately, we haven't been able to reach a consensus in Congress on how to address that issue. In the last Congress, we introduced an initiative on a bipartisan basis that would have reformed insurance markets and created national networks so small businesses and the self-employed can access more affordable insurance. That bill actually has brought in a number of organizations that now support it

across the spectrum. So it would be useful for you to look at that proposal, the Small Business Health Options Program Act, or SHOP Act, as we begin to grapple with health care reform.

In fact, the Finance Committee, of which I am a member, is going to begin to take up the issue in April with the expectation of marking up legislation to overhaul the healthcare system in June, so I invite your comments and thoughts on that as we proceed, particularly in conjunction with small business and the tax credits and sort of level the playing field. The self-employed alone have to buy into the individual markets. They don't get the tax write-offs or anything. So it is really crucial that we address that as part of it, and particularly during the course of this recession.

To follow up on a couple of issues, on HUBZones, which I have been a strong proponent of, although last year I did urge the GAO's recommendations to follow up with greater oversight and transparency in this program. I truly did have some concerns that ultimately manifested itself in the recent report that was issued in the Wall Street Journal.

What was troubling about it is that the SBA had failed, in essence, to monitor this program. People weren't located at specific addresses. There were non-certified HUBZone firms. Lack of SBA internal controls to verify business information, no onsite visits, the list goes on.

And so what I would urge you to do is to really look at that report and to quickly implement and adopt those recommendations, because otherwise it is going to jeopardize this program. On the other side of the Capitol, there are those who are opposed and would like to remove the program altogether. I see a value to it, frankly, so businesses in high-unemployment areas can utilize the Federal contracting office if they are certified HUBZones. But this report was deeply troubling and so we had better address the flaws in this program and make sure that the SBA has the type of controls to monitor that.

Ms. MILLS. Well, this report was of great concern and I promise you that we will look at it immediately.

Senator SNOWE. And, you know, what was interesting, as well in this article, it raised the specter of the ability of the SBA to monitor the stimulus provisions. That is something that we want to really be on top of with respect to having the types of oversight management of all of these programs. It is crucial that the question as to whether or not it would be possible in the numerous stimulus programs benefit small businesses and so we must ensure that there is through oversight.

On government-wide contracting, consistently, government agencies have failed to live up to the 23 percent goal. They came in at 22 percent last year. It has already been mentioned this morning but it is a pretty abysmal picture about agencies. And when you talk about one of your three goals, which are absolutely right on target, to work across agencies, this is one area where you truly can, because they are required to meet a statutory goal, and repeatedly the agencies have failed to do it. And 50 procuring Federal agencies in 2000 alone, they failed to meet the five percent goal. The Department of Defense, well, they have just about the worst

record. They spend less than three percent of the \$269 billion that are eligible for small business procurement dollars.

And so what we have got to do is to make sure that these agencies are living up to the statutory requirements. If you look at the goals that are required under law, the only one that has been fulfilled has been small business disadvantaged businesses. They are up to now 6.6 percent. Women-owned, HUBZones, service disabled veterans goals have not been. In fact, it has been eight long years just to get the implementation of women-owned businesses, and they finally did come out with a rule last year that fell far short of expectations, limited to a few categories for women-owned businesses. So it was de minimis and it simply wasn't going to work. So we put a hold on that rule in the stimulus plan, as you probably know, because it wasn't good enough and it does not fairly reflect what the agency needs to do to implement an effective and meaningful woman's contracting program.

So I would urge you to use all of your leadership and power within your agency to work across agencies in making sure they live up to those goals, because when you think about the potential for contracting, for example, and SBA estimates that every \$140,000 of contracting dollars creates a job. Last year, if you think about the number of contracting dollars that went out in prime and subprime contractors and still falling below the level, they were able to save or create 1.1 million jobs.

So this is money that is going to be spent by the Federal Government. It is not as if we have to spend more. It is making sure these agencies do their jobs and uphold their statutory obligations. So using your voice and persuasive powers will be truly instrumental in creating jobs, and particularly in high-unemployment areas.

One other issue. On the U.S. Trade Representative, Chair Landrieu and I have advocated and communicated that to the new Trade Representative, Ron Kirk, about creating a position within USTR for small business exporters, because small businesses are overlooked in trade negotiations. They are not even part of the equation and we think that small businesses should be fairly represented in these trade negotiations. The only way you can accomplish that is to have somebody within USTR that is representing small business and an advocate for small business. Is that something you would consider supporting?

Ms. MILLS. Well, first of all, Senator, on all of these issues that you have urged us to go across agencies, we will make that an important part of this new administration of the SBA, that these linkages with other agencies to comply with contracting and also in this critical area of exporting. I would say that I also would include Commerce in this sort of linkage on the export side because they have the network of trade activities that very often support trade missions for small business. So I would want to go and look at what the best method would be of making sure that small business is at the table in trade, in discussions and also in sort of missions and implementation, because this is how small businesses are going to grow. They are going to grow globally.

Senator SNOWE. Thank you.

Chairman LANDRIEU. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you.

I would like to pick up on Senator Bayh's comments about floorplan financing for automobile dealers. He talked about RVs in particular, but I met earlier this week with a group of automobile dealers from New Hampshire who are very concerned about a number of lenders exiting the market. They are banks that are owned by overseas corporations and they are getting out of that lending market. These are companies that have good business plans. They have been operating at a profit. Their bills are all paid up. These are not businesses who are in trouble. These are businesses who contribute to the community, employ over 13,000 people in the State, and yet they are concerned about what is going to happen if their financing gets pulled.

It is my understanding that—well, just to back up a little bit, I also then met with some community bankers who said that while they haven't been in this lending market, if SBA got in to provide some assistance to these auto dealers, that they would really look at then being able to provide the credit that these businesses need.

So my question is, what can SBA do? It is my understanding that there are no statutory prohibitions from SBA making the changes that would allow you to help with some of this financing and that you would need to change the definition of a small business to reflect the fact that auto dealers generally have very high gross revenues but much smaller net revenues, and two, that you would need to make floorplans eligible for SBA guarantees.

Now, I know that back in 1980, President Jimmy Carter actually directed the SBA to provide liquidity to auto dealers to meet a similar credit crisis. So would you be willing to look at making these kinds of changes on a temporary basis until floorplan financing could become available to auto dealers?

Ms. MILLS. This is an area that has been raised now recently in a number of places and I would commit to this committee that we will look at it very quickly and also try to coordinate with those working on the auto rescue to see what is the best way to go about solving this issue.

Senator SHAHEEN. Thank you. I spoke to someone in the administration yesterday who was working on this very issue and we talked about the potential to provide some assistance. As Senator Snowe said earlier relative to some of the stresses that small businesses are facing, this is an area that is quickly rising to a level of a crisis if we can't provide some help to some of these auto dealers. So anything that our office can do to work with you to address this issue, we would be happy to do that.

There has been—a number of people have mentioned the provisions in the Economic Recovery and Reinvestment Act and implementing those and how important that will be. I certainly appreciate the leadership of Senators Snowe and Landrieu in increasing the support that was in that Act for small businesses and the funding to allow SBA to temporarily eliminate the fees for 7(a) and 504 loan guarantee programs.

A concern has been raised with me by some folks in New Hampshire about how the SBA is implementing the fee waiver for the 504 loan program. It is my understanding that SBA plans to pay certified development companies two-thirds of the processing fee at



the time that the loan is authorized. Right now, I also understand that up to 20 to 25 percent of all authorizations issued by SBA end up not closing.

So my concern is that if we are paying two-thirds of those costs up front and a fifth to a quarter of those loans never close, are we not spending money that we really shouldn't be until we know that the loan is actually going to close? I appreciate that you may not have an answer to that right now, but I would urge you to look into this, because as we have all said, we want to make sure that the funding that was in the stimulus package is used to the very best benefit possible and this is one area where I think we want to make sure that every dollar is going to help the business. Thank you.

Chairman LANDRIEU. Thank you. That was an excellent point to raise.

As we conclude this hearing, I am going to ask a couple more questions. I asked you the necessary question about appearing before any committee of Congress. You declared that you would. I must also ask you if you are willing to provide any information requested by a committee of the House or the Senate. Are you willing to provide information as requested of you?

Ms. MILLS. Yes, I am.

Chairman LANDRIEU. Thank you. Let me say for the record that the record of this committee will remain open until 2:00 p.m. this afternoon. I would like to ask that we keep these to a minimum because our intention is to try to process this nomination quickly, either today or tomorrow.

This committee will hold a markup on this nomination about 15 minutes prior to a vote this evening, which will likely be around 6:00. We need a majority of the members present, so I wanted to give notice now.

We will also include in the record the many letters of congratulations and recommendation that we have received on your nomination, Ms. Mills.

Chairman LANDRIEU. I believe this hearing has gone very well this morning.

Is there anything else, Senator Snowe, that you would like to add?

Senator SNOWE. No. I want to thank you, Madam Chair, for certainly handling this nomination in such an expeditious fashion because it is so important to this country and SBA and the nation requires the leadership of Ms. Mills as the next Administrator of the Small Business Administration. So I really appreciate all that you have done to accomplish this hearing today and to move it forward quickly this week. Hopefully, she can be confirmed so we can move forward in this critical area, so thank you.

Chairman LANDRIEU. Well, that is our goal because we need a captain of this ship. Thank you very much.

Meeting adjourned. Thank you.

[Whereupon, at 11:37 a.m., the committee was adjourned.]



## APPENDIX MATERIAL SUBMITTED

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SENATOR CHRISTOPHER S. BOND, COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, APRIL 1ST COMMITTEE HEARING ON "CONFIRMATION HEARING OF KAREN GORDON MILLS TO BE ADMINISTRATOR OF THE U.S. SMALL BUSINESS ADMINISTRATION"

### STATEMENT FOR THE RECORD

Thank you, Madam Chair for holding today's confirmation hearing on President Obama's nominee for the Administrator of the U.S. Small Business Administration (SBA). I also thank the Committee's staff for closely reviewing her background, financial and tax history, and professional activities to ensure that she meets the Committee's and Senate's standards and requirements.

It is my understanding that Ms. Mills is strongly supported by many small business advocacy groups and it is no surprise. Ms. Mills has an impressive background of business experience and management skills and expertise—especially in the area of venture capital, which will be valuable in the Small Business Research Innovation (SBIR) program. Further, I am impressed that she has been engaged in policy and advocacy issues important to small businesses. For these reasons, I strongly support Ms. Mill's nomination.

If confirmed, Ms. Mills will be facing several significant challenges. First, the financial credit crisis remains a major challenge to the viability and competitiveness of small businesses despite unprecedented government assistance from the Federal Reserve, FDIC, and the Treasury Department. As everyone here knows, our economic success significantly hinges on the success of small businesses. That is why we must unfreeze the credit markets so small businesses can purchase supplies, invest in new equipment, meet payroll needs, and create new jobs.

While the government has taken important steps to address credit needs for small businesses through changes to the SBA's loan guarantee programs and the Federal Reserve has launched the Term Asset-Backed Securities Loan Facility, those steps are simply not enough and will likely only provide limited improvements in small business lending. Unlocking the financial system is the most important step the government can take to enable small businesses to recover from the current economic downturn and reach their full potential.

In terms of the SBA, I strongly believe that Ms. Mills must build on the previous Administration's efforts to address the agency's long-standing management deficiencies. Under the SBA's former leadership—especially under former SBA Administrator Steve Preston—the agency made significant progress, and it is critical that management reform be continued and sustained so that the SBA can better meet its mission.

Management improvements are especially needed for the HUBZones program. The U.S. Government Accountability Office (GAO) recently identified a number of significant problems with the administration and oversight of the HUBZones program. While I am troubled about the GAO's findings, I strongly support mending, not ending, the program. This program is a critical resource in creating good jobs in the poorest communities across the Nation; and in this economic downturn, terminating the program is simply unwise.

In response to the GAO's findings, the SBA has taken a number of important management and programmatic steps. Further, Ranking Member Snowe introduced legislation last year to improve the program, and I strongly support her efforts. I have already indicated to Senator Snowe that I will be an original co-sponsor to her bill and urge my colleagues on both sides of the aisle to also support it when it is re-introduced during this session.

In addition to HUBZones, I have been a strong supporter of the SBIR program. I believe that with Ms. Mills' experience as a venture capitalist, she will bring im-

portant leadership to this program, and I am hopeful that she will be able to address a particular issue of concern to me.

The research community, especially small biotechnology and medical-device companies were dealt a major setback when the SBA determined that small venture-backed companies could no longer participate in the SBIR program due to administrative changes. This meant that small biotech and medical-device companies that had been backed by venture capital investment and produced some of the most cutting-edge technology could no longer participate in the program.

The results of this decision have been severe, particularly in the biotech and medical-device industries where the National Institutes of Health has seen a drastic decrease of SBIR applications since this decision.

Cutting-edge companies rely heavily on venture capital investment. For a small biotech company working to bring a product to market it is a necessity, not a luxury. If confirmed, I strongly urge Ms. Mills to revisit this decision and allow small businesses that have majority investment by venture capital firms to be eligible to compete again in the SBIR program.

Finally, while the SBA's programs provide valuable resources to the small business community, programs and activities outside the agency also play a major role in the success and failure of small businesses. That is why I strongly believe that the SBA Administrator should have a seat at the table on important economic and financial matters in the Administration. If confirmed, I believe that Ms. Mills could bring a strong, credible, and constructive voice on how various Administration policies will affect small businesses, job creation, and the greater economy. I am pleased that Ms. Mills' statement mentions her commitment to act as an advocate for small business across the Administration.

One particular area in which I strongly urge Ms. Mills to participate is taxes. While I understand that the Treasury has primary responsibility for tax policy, the Treasury Department could benefit greatly from Ms. Mills expertise and insights.

It is my strong belief that we must not increase the tax burden on small businesses, especially since many operate on thin profit margins. Unfortunately, the Administration's budget proposes to increase taxes on small businesses by raising the top two tax rates. The Administration is trying to sell this massive tax increase as a tax hike on the rich who can afford to pay more, but the Administration conveniently overlooks the fact that thousands of small businesses pay their taxes on the owner's individual tax return. A 2008 estimate from the Department of the Treasury found that about 70 percent of tax returns that were subject to either of the top two tax rates are flow-through business owners—that's about 1 million Main Street small businesses. Raising taxes on small businesses is the last thing we should do when the economy is struggling, small businesses are facing a severe credit crunch, and most Americans are worried about losing their jobs.

In closing, I strongly support Ms. Mills and urge the Committee to report favorably her nomination. Thank you.

#### QUESTIONS FROM SENATOR BOND

##### *Question 1. SBIC Administrative Problems*

It is my understanding that you plan to address challenges in the Small Business Administration's (SBA) investment programs, including the Small Business Investment Companies (SBIC) program and the New Markets Venture program. As you may know, administrative problems with the SBIC program are crippling it when we need it the most. For example, getting a license can take a year or longer, even for successful repeat SBICs.

Do I have your commitment to provide my office with periodic reports as to how many SBIC license applications are pending, how long the applicants have been waiting, and what is causing these delays?

##### *Question 2. Improving SBIC to Address Credit Crisis*

Small businesses are suffering from the credit crisis. A big part of this problem is that equity investing has dried up, and without equity, banks will not lend.

As the Congress considers reauthorizing the SBA, will you support and provide suggestions on reforming and improving the SBIC equity program to provide more investment for our small businesses?

##### *Question 3. Capital Gains Taxes on Small Businesses*

President Obama mentions in his budget the elimination of capital gains on small businesses. Unfortunately, that proposal would really only affect a small number of so-called C corporations that would qualify for this special relief.

Wouldn't a lower capital gains rate on investments in all U.S. small businesses keep investments from going offshore and direct the capital to our best job creators? Would you support a lower capital gains tax for investments in small businesses?

*Question 4. HUBZones*

The SBA's Historically Underutilized Business Zones program or "HUBZones" is designed to stimulate economic development and create good jobs in America's poorest urban and rural communities. These jobs are especially vital in the current economic downturn. The U.S. Government Accountability Office (GAO) completed two reports within the last year in which they uncovered a number of management and operational deficiencies with the program. For example, the GAO identified problems with ensuring eligible firms that met required qualifications were participating in the program. It is important to me that this program receives adequate management attention and the resources necessary to operate properly so that the program meets its economic-development mission as intended by the Congress.

If confirmed by the Senate, will you work with me, Senator Snowe, and other interested parties to address the GAO's findings and ensure resources are provided to ensure that the program can meet its intended mission and provide the attention and oversight necessary to ensure that only firms who actually meet the program's qualifications receive HUBZone contracts and funding?

*Question 5. SBIR*

One of the programs that Congress will likely reauthorize this year is the Small Business Innovation Research Program (SBIR). This program was created in the early 1980s to ensure that small, innovative, technology-oriented companies had access to federal research dollars, and it has been very successful in helping small businesses to commercialize new technologies. The program, however, has not been working as well for many industries that rely on venture capital investment. In 2003, the SBA's Office of Hearings and Appeals determined that small companies that are majority owned by multiple venture-capital firms did not qualify under the SBIR eligibility rules. Since that time, we have seen a precipitous drop in SBIR applications at agencies such as the National Institutes of Health (NIH).

The current restrictions on venture capital investment run counter to the goal of helping innovative small companies commercialize new technologies. Many industries that rely on venture capital investment—such as biotechnology, medical technology, clean fuel technologies, and others—are disproportionately excluded from the program due to the current rules.

Will you pledge to work with me, the members of this committee, and other stakeholders to ensure that the SBIR reauthorization legislation modifies the current venture capital restrictions to ensure that a broader range of our nation's most cutting-edge small companies are eligible to participate?

RESPONSES TO SENATORS BOND AND ENZI FROM KAREN GORDON MILLS

Senator Bond:

*Question 1. SBIC Administrative Problems*

*It is my understanding that you plan to address challenges in the Small Business Administration's (SBA) investment programs, including the Small Business Investment Companies (SBIC) program and the New Markets Venture program. As you may know, administrative problems with the SBIC program are crippling it when we need it the most. For example, getting a license can take a year or longer, even for successful repeat SBICs.*

*Do I have your commitment to provide my office with periodic reports as to how many SBIC license applications are pending, how long the applicants have been waiting, and what is causing these delays?*

Yes, you have my commitment. I look forward to working with you.

*Question 2. Improving SBIC to Address Credit Crisis*

*Small businesses are suffering from the credit crisis. A big part of this problem is that equity investing has dried up, and without equity, banks will not lend.*

*As the Congress considers reauthorizing the SBA, will you support and provide suggestions on reforming and improving the SBIC equity program to provide more investment for our small businesses?*

Yes, and I look forward to working with the Committee on ways in which the SBIC equity program might be made more effective and to look into any other alternative investment programs that might be proposed.

*Question 3. Capital Gains Taxes on Small Businesses*

*President Obama mentions in his budget the elimination of capital gains on small businesses. Unfortunately, that proposal would really only affect a small number of so-called C corporations that would qualify for this special relief.*

*Wouldn't a lower capital gains rate on investments in all U.S. small businesses keep investments from going offshore and direct the capital to our best job creators? Would you support a lower capital gains tax for investments in small businesses?*

President Obama has included in his budget proposal the elimination of capital gains on small business stocks if they're held for 5 years or more and gross assets were initially below \$50 million. And, as you know the Recovery Act increased the benefit to 75 percent from 50 percent for two years. The President's 100 percent elimination proposal in the budget builds on the existing Section 1202 in current law, making it more generous. I would support considering other possible ways of reforming Section 1202 that may provide further tax benefit for small businesses beyond C corporations.

*Question 4. HUBZones*

*The SBA's Historically Underutilized Business Zones program or "HUBZones" is designed to stimulate economic development and create good jobs in America's poorest urban and rural communities. These jobs are especially vital in the current economic downturn. The U.S. Government Accountability Office (GAO) completed two reports within the last year in which they uncovered a number of management and operational deficiencies with the program. For example, the GAO identified problems with ensuring eligible firms that met required qualifications were participating in the program. It is important to me that this program receives adequate management attention and the resources necessary to operate properly so that the program meets its economic-development mission as intended by the Congress.*

*If confirmed by the Senate, will you work with me, Senator Snowe, and other interested parties to address the GAO's findings and ensure resources are provided to ensure that the program can meet its intended mission and provide the attention and oversight necessary to ensure that only firms who actually meet the program's qualifications receive HUBZone contracts and funding?*

The HUBZone program serves an important role in creating jobs in some of America's economically distressed communities by helping secure government contracts for companies who are located in these areas and who hire residents of these communities. As the GAO report highlighted, there have been gaps in the HUBZone certification and auditing process, and as a result some companies were improperly certified as HUBZone companies and/or awarded HUBZone contracts. The SBA takes these instances of fraud and abuse very seriously. As indicated in the GAO report, the SBA is in the process of working with outside experts to re-engineer the HUBZone program and examine all operations and potential risks. We would certainly welcome working with you and other members of the committee to drive the necessary program changes to minimize program risk and ensure that the HUBZone program achieves its laudable goals.

*Question 5. SBIR*

*One of the programs that Congress will likely reauthorize this year is the Small Business Innovation Research Program (SBIR). This program was created in the early 1980s to ensure that small, innovative, technology-oriented companies had access to federal research dollars, and it has been very successful in helping small businesses to commercialize new technologies. The program, however, has not been working as well for many industries that rely on venture capital investment. In 2003, the SBA's Office of Hearings and Appeals determined that small companies that are majority owned by multiple venture-capital firms did not qualify under the SBIR eligibility rules. Since that time, we have seen a precipitous drop in SBIR applications at agencies such as the National Institutes of Health (NIH).*

*The current restrictions on venture capital investment run counter to the goal of helping innovative small companies commercialize new technologies. Many industries that rely on venture capital investment—such as biotechnology, medical technology, clean fuel technologies, and others—are disproportionately excluded from the program due to the current rules.*

*Will you pledge to work with me, the members of this committee, and other stakeholders to ensure that the SBIR reauthorization legislation modifies the current venture capital restrictions to ensure that a broader range of our nation's most cutting-edge small companies are eligible to participate?*

The SBIR program has proven to be enormously effective and a valuable way to turn innovation into jobs. A recent report of the National Academies said that the SBIR program is "sound in concept and effective in practice" and that it meets its major Congressional objectives. In addition the SBIR program is "increasing innovation, encouraging participation by small companies in federal R&D, providing sup-

port for small firms owned by minorities and women, and resolving federal questions for mission agencies in a cost-effective manner.”

There are two guiding principles to consider as we discuss reauthorization: 1) that the SBIR program is for small businesses and they should not be crowded out of the competition for these dollars; and 2) it is a competitive program for the most promising companies and it would be unfortunate to exclude those small, high-potential companies inadvertently.

I look forward to working with the Committee to ensure that the SBIR reauthorization takes into consideration these two guiding principles and that the most promising, small companies can be a part of the process and continue to drive innovation and job growth across the country.

Senator Enzi:

*I was pleased to hear you mention the Procurement Conference I host each year in Wyoming at your nomination hearing. I think that there is significant potential for growing government purchasing from small businesses by applying the model we have in Wyoming on a wider basis. I would like to ask you about your intentions as Administrator to ensure that the designated small business funding from the stimulus bill goes only to small businesses. At my last Procurement Conference both contractors and local SBA officials expressed their concerns to me about how the SBA would be able to meet the demands of the stimulus bill.*

*What are your plans to ensure that stimulus efforts get to small businesses quickly but also maintain accountability to ensure that only legitimate small businesses benefit from these efforts?*

The procurement conference that Senator Enzi hosts in Wyoming is an interesting model for growing government purchases from small businesses. We will pledge, with the Senator's permission, to examine this model and its best practices and look to apply them on a wider basis.

Additionally, ensuring that small businesses obtain their appropriate share of government contracts is part of the SBA's core mission. Small businesses and the jobs they create are central to economic recovery. I am committed to seeing that the SBA works to ensure that small businesses get their share of the contracts through the Recovery Act and they are given the chance to create jobs and help get Americans back to work.

