

the cuts are fair and sensible. Contributions to U.N. peacekeeping operations are kept in check while affording the executive branch maximum flexibility and the legislative branch maximum oversight. The bill closely resembles the provisions of the American Overseas Interests Act passed by the House earlier this year.

I encourage all of my colleagues to support this legislation that is both fiscally responsible and attentive to the needs of the American people.

INTRODUCTION OF THE SMALL BUSINESS TRANSFER ACT OF 1995

HON. DAVID DREIER

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, July 27, 1995

Mr. DREIER. Mr. Speaker, one of the goals of the new Republican majority in Congress is to evaluate the performance and objectives of all federal programs and agencies. In undertaking such evaluations, I believe two fundamental questions need to be answered:

First, what aspects of the program or agency continue to serve a beneficial public policy purpose?

Second, how can we redesign the program or agency to perform the useful functions in a cost-effective manner?

Today, Representative JOEL HEFLEY, vice chairman of the Committee on Small Business, and I have introduced H.R. 2125, the Small Business Administration Transfer Act, which addresses these two questions in a positive way. In conversations with small business owners and their representatives here in Washington about the role of the Small Business Administration, I am told consistently that the two areas where the Federal Government can be helpful are in providing access to capital and a voice at the highest levels of government. The remaining functions of the Small Business Administration have little to do with, or actually hinder, small business growth.

The Small Business Transfer Act strengthens the programs that matter most to small business while saving taxpayers \$3 billion over 5 years. Under the legislation, the present Small Business Administration, with its outdated and heavily bureaucratic regional, district, and field structure, would cease to exist on October 1, 1996. An Office of Small Business Advocacy would be established in the Executive Office of the President. This office, which would function in a manner similar to the SBA's Office of Advocacy, will give small business a voice inside the White House.

The bill also establishes an Office of Small Business Lending in the Department of Treasury. The office would consist of an Under Secretary, Deputy Under Secretary, and no more than 200 auditors who would administer a small business general loan guarantee program. All other SBA credit programs and revolving funds would be transferred to this office for servicing and liquidation.

The guaranteed loan program would function like the current Preferred Lenders Program, whereby the lender would have the complete authority to make close, service and liquidate loans. Maximum loan amounts would remain the same, but the guaranteed portion

may not exceed 75 percent of the financing outstanding at the time the loan is made. No direct or immediate participation loans could be made.

To be eligible for a guaranteed loan, a business must meet:

First, the credit elsewhere test, denied credit by two lending institutions; second the definition of a small business; and third, the requirements of Sec. 7(a)(6) of the Small Business Act that all loans be of such sound value or so secured as reasonably to assure repayment.

For lenders to be eligible to participate in the program, the lender must maintain at least a 6-percent capital-to-asset ratio. The bill contains language explicitly subjecting lender loan portfolios to an annual compliance review conducted OSBL auditors. As an option, this could be done as part of an institution's overall compliance review conducted by the appropriate bank regulator.

The bill also contains language capping taxpayer exposure with excess or above historic average losses on each lender's portfolio. For example, if the lender's portfolio is 10 percent above the industry's historic loss average, the guarantee on loans originated by the lender would fall by 10 percent—from 75 percent to 68.5 percent.

The Treasury Secretary would be required to collect a minimum guarantee fee of 1/2 of 1 percent of the amount of the deferred participation share of any guaranteed loan. The lender would be permitted to finance the guarantee fee as part of the loan. The Treasury Secretary would be required to adjust the guarantee fee, subject to the normal reporting requirements, to ensure a guarantee fund that is self-financing.

The reforms made to the loan guarantee program respond to a December 1992 General Accounting Office study of Housing and Community Development issues. The study made the following observations:

There has been no recent assessment of what sector of small business, if any, would receive financial assistance if SBA did not exist. Nor has there been a recent assessment of the economic impact that has resulted from billions of dollars in Federal guarantees that SBA has provided to small businesses. Yet in fiscal year 1992, SBA almost doubled the value of the business loans that it guaranteed—from \$3.8 billion in fiscal year 1991 to \$6.4 billion in fiscal year 1992. Our work has shown that SBA's loss rate is greater than that of private lenders and that SBA has not adequately overseen the operations of lenders receiving government loan guarantees.

Mr. Speaker, the reason the GAO's assessment of the SBA is so negative is that the agency's mission statement is faulty. In 1985, then OMB Director David Stockman called the SBA a billion-dollar waste—a rathole. Ten years later, the agency has undergone numerous reorganizations and credit reforms that have brought down default rates and improved the operations of credit programs. But the agency is still a failure because of the faulty premise that Government can create private sector jobs. Even if the Government could create private sector jobs, the SBA's programs are inconsistent with that mission.

Instead, what we have is an agency that reallocates credit to the least credit worthy; provides noncompetitive contracts to millionaire minorities at the expense of small business;

plants trees at a cost of up to \$1,200 per tree; and provides \$70 million a year in grants to universities, which is the last place a small business person goes for advice.

In his book "*The Effective Executive*" Peter Drucker, my professor at the Claremont Graduate School, referred to an order by President Johnson that all Government agencies adopt program reviews to weed out obsolete and unproductive work. "This is a good first step, and badly needed," Drucker said. "But it will not produce results as long as we maintain the traditional assumption that all programs last forever unless proven to have outlived their usefulness. The assumption should rather be that all programs outlive their usefulness fast and should be scrapped unless proven productive and necessary. Otherwise, modern Government, while increasingly smothering society under rules, regulations, and forms, will itself be smothered in its own fat."

Mr. Speaker, the Small Business Administration has clearly outlived its usefulness. While I also question whether a guaranteed loan program remains productive and useful, there are legitimate concerns that excessive Government regulation of lending institutions has made it cost-prohibitive to lend to many legitimate small businesses. Until those regulations can be eased, a case can be made for maintaining a loan guarantee program.

The Small Business Transfer Act offers a unique opportunity to make Government more effective by expanding small business capital, reducing taxpayer risk, and giving small business an antitax and antiregulatory voice at the highest level of Government. For these reasons, Mr. Speaker, I urge my colleagues to join us in cosponsoring H.R. 2125.

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS ACT, 1996

SPEECH OF

HON. JOHN J. LaFALCE

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Tuesday, July 25, 1995

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 2076) making appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and related agencies for the fiscal year ending September 30, 1996, and for other purposes:

Mr. LaFALCE. Mr. Chairman, I rise in strong support of this amendment offered by Mrs. MYERS on behalf of the two of us. And I want to commend her for this initiative, although I do want to note that I would have preferred that the amendment not cut as deeply as it proposes to do. I believe a cut of almost 30 percent is more than can be accommodated without damaging the Office of Advocacy. Possibly the conferees on this bill can find another four or five hundred thousand dollars to add to the amount being added by the amendment.

Mr. Chairman, of all of the functions of the Small Business Administration, the Office of Advocacy undoubtedly helps more small businesses for less dollars than does any other office within SBA.

This is the Office whose testimony before the Congress has been requested 200 times.