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ACCESSING CAPITAL AND BUSINESS ASSISTANCE: ARE CURRENT PROGRAMS MEETING THE NEEDS OF RURAL SMALL BUSINESS?

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 16, 2004

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ACCESSING CAPITAL AND BUSINESS ASSISTANCE: ARE CURRENT PROGRAMS MEETING THE NEEDS OF RURAL SMALL BUSINESS?

MONDAY, FEBRUARY 16, 2004

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

The Committee met, pursuant to notice, at 8:30 a.m., in Conference Room Bay 3 at the Coeur d'Alene Resort, Coeur d'Alene, Idaho, the Hon. Mike Crapo (Acting Chairman of the Committee) presiding.

OPENING STATEMENT OF THE HONORABLE MIKE CRAPO, ACTING CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM IDAHO

Senator CRAPO. Ladies and gentlemen, we welcome you here, and this will convene the hearing of the Small Business Committee in Coeur d'Alene, Idaho. I want to thank all of you for taking the time particularly on a holiday to attend this official hearing of the United States Senate Committee on Small Business and Entrepreneurship. I think that this is the first such official hearing to be held in Idaho, and I want to thank Senator Olympia J. Snowe of Maine, who is the Chair of the Committee, for allowing us to hold this hearing here in Idaho.

Because Senator Snowe, who is the Chair, and Senator John Kerry, who is the Ranking Member, as the Chair and Ranking Member, respectively, have the prerogative over witnesses who are invited to testify at our hearings in Washington, I thought it was important that the Committee record also include the important testimony of leaders and businesses from the rural West. Therefore, I asked if we could hold this hearing in Idaho, and Senator Snowe graciously agreed.

She's a very strong advocate of small business and she and I work very closely together on many of the critical issues, most of which, if not all of which, I expect will be brought up here today from the witnesses who will present testimony.

A recent study by the SBA showed that 80 percent of all small business lending occurs in urban areas, although loans to rural businesses are increasing at a faster rate than loans to urban businesses. Unfortunately, the study also shows that a significant problem remains. Small businesses in rural areas nationwide, which are 20 percent of all small businesses, have less access to credit than those operating in urban areas.

In addition, because of the tight budget conditions under which we're operating in Washington, D.C., and, frankly, throughout the rest of the country as well, our technical and developmental assistance agencies are being asked to do more and more with fewer and fewer resources. This all leads us to ask some important questions, and I'm going to posit a few here, and I expect, again, that we'll get some other questions, and answers I hope, from our witnesses today.

Are the capital access programs in rural areas like Idaho sufficient enough to meet the needs of all qualified small businesses regardless of size or location or type of business? Are the current technical and developmental assistance programs meeting the needs of rural entrepreneurs? Do we have a situation where the necessary capital and assistance programs are in place but the people who need them aren't always aware of their existence or of how to access them? Or do we need to create new programs or modify the existing ones so that they can better meet the unique needs of small business in rural areas? These are just some of the questions that I have and I'll be looking for input and information from those who are before us today.

Of course, recent events involving the capital access program I'm sure you all want to talk about, 7(a), have prompted a lot of other analysis of what's happening in the SBA programs and in the budget process in Washington, D.C. The SBA's recent decision to suspend, cap and restrict its flagship program has certainly caused a lot of problems and raised a lot of questions, some of which I hope we can address today.

Why did the SBA reach the point where it felt these caps and restrictions were necessary? How have these events affected the Idaho small business community? What has the SBA proposed to remedy the situation? What should the SBA and Congress be doing to remedy the situation and restore long-term stability to that program?

I'll have more to say on these issues during the question-and-answer period with our witnesses, but right now I want to get ahead and get on with the testimony. I want to let everybody know, the witnesses to know, that because we operate under time restraints, I will be very insistent on making sure that each of you follow the 5-minute rule for your oral presentation, and would ask you to pay attention to that.

In fact, Mike here has got some little cards to help you realize how much time you have left. I've been in a lot of hearings, both on this side of the table and on that side of the table; and I'll tell you what, I've never had enough time to say everything I want to say, and I suspect that that will be the case for you today, too. It always seems to be that those minutes melt away faster once you start talking and that's why we've got a little reminder here as to what they are. If you go over, I'll kind of rap the gavel here to remind you. It's only to get you to let us get on to the question-and-answer period as well so we have time for that dialogue.

I assure you that I've read all of your testimony. If you can't get through everything in your written testimony, don't worry about it because your written testimony will not only be read by me and my staff, but by the staff of the Small Business Committee and other

Senators as well. We'll also be able to get into a lot of the things that you may not get into in your allocated 5 minutes during the question-and-answer period. We will have other opportunities.

If for any reason, when we get to the end of your panel, you feel like you really haven't had a chance to say what you wanted to say, we will keep the record open and let you submit some more written statements, if you'd like to, so you can get your information to us.

With that, let us proceed. Let's move to our first witness panel. The first panel includes Paul Ferguson, who is a Commercial Loan Officer with the Panhandle Area Council; Mr. John Lynn, the Director of the Idaho Small Business Development Center in Post Falls; Mr. Jim Deffenbaugh—Did I pronounce that right? The Executive Director of the Panhandle Area Council; and Doug Kindred, a retired small business owner and current volunteer with SCORE, the Service Corps of Retired Executives.

Gentlemen, we'll have you present in that order; and then at the conclusion of your presentations, we'll engage in some questions and answers and discussion on the issues.

Mr. Ferguson.

STATEMENT OF PAUL L. FERGUSON, COMMERCIAL LOAN OFFICER, PANHANDLE AREA COUNCIL, INC., HAYDEN, IDAHO

Mr. FERGUSON. First of all, Senator Crapo, thank you for inviting us.

Senator CRAPO. You might want to pull that a little closer to you.

Mr. FERGUSON. Closer?

Senator CRAPO. Yes, turn it on. That works, too.

Mr. FERGUSON. Boy, there's a lot of protocol, isn't there?

Once again, thank you for inviting us. I'm nervous enough that I'll probably go through my talk in much less than the 5 minutes.

Senator CRAPO. You get extra credit for that.

Mr. FERGUSON. But I do appreciate the opportunity.

The Panhandle Area Council is a non-profit development company working here in the Idaho panhandle. We have a business incubator for small manufacturers. We provide technical assistance for business owners and lending programs from a thousand to a million-three. One of our goals is to provide and retain a new job for every $35,000 that we lend to business.

PAC provides loans through the SBA Micro program for projects under $35,000. Banks are often unwilling to do such small loans because of the modest return. Annually, we get about 300 inquiries with microloans. We provide assistance with business plans. We review their projections and make suggestions regarding the appropriate loan product. If it involves the SBA 7(a) program or other bank loans, we coach them about how to prepare the package and make their presentation.

PAC projects over $35,000 must have a lending partner. The bank loans 50 percent of the amount and we allow the bank the first lien position. The bank, of course, is more willing to participate in projects that have the specialized collateral, smaller equity or short business history. Often these projects do not qualify for the SBA 7(a) lending.

The 7(a) program is a huge asset for North Idaho and it's especially good for the small community banks that cannot afford the

risk and also need the ability to sell loans to provide capital for their other borrowers. The 7(a) program also allows restructure and consolidation. These requests are not allowed in any of our other PAC programs.

But there has been a trend in the last few years to emphasis obviously the populated urban areas. The Spokane district office of the SBA was made a branch of Seattle, and many of the portfolio and lending personnel have been transferred or eliminated.

The SBA is changing the character of the Certified Development Companies, the CDCs, that originate and service the SBA 504 loans. The CDCs were established originally with a given geographical area, a local board, a local loan committee to address local needs. Recent changes are allowing CDCs to cover the entire State and also allow large CDCs to cross State lines.

These changes do not require local boards, or at least local committees. We feel this change will enable the large CDCs to "cream" the loans and only go to the areas where they're going to see larger volume and tend to loan to more risk-free businesses. It's very hard for rural CDCs to meet production goals with their limited resources. Many more CDCs will disappear in the rural area.

These smaller CDCs also rely on the servicing income from the large 504s to fund the staff that also administers the smaller micro and USBA loans. Competition for the USDA Rural Development Loan pool money is also difficult for smaller economic development groups. Performance points used to be adequate to obtain the money. Now, with the scoring system, there is substantial matching money required to achieve the necessary points to get that bid. The smaller lenders do not have the ability to provide this larger matching money.

While the proposed budget says it will provide more funding for the 7(a) SBA program, the microloan program is being eliminated. Is this really a net gain for your prospective borrowers? The administration says the microloan can be replaced by use of the SBA Community Express. PAC has made 67 microloans for a total of nearly $667,000, so you only have an average loan size of about $10,000. I do not know of any bank that will do a 7(a) loan with all of its paperwork just for a $10,000 loan.

The Community Express program does not pay for technical assistance; however, the SBA web site states that they recognize that this is crucial to the success of a business. Borrowers must receive pre- and post-closing technical assistance from non-profit providers or the lender. This assistance is to be paid for by that Community Express lender. I'm curious how non-profits are going to carry this cost burden and if banks are willing to do so for such a modest-sized loan.

PAC is just a small economic development corporation, but we have had an impact on the local economies. In just the loan programs, we've lent over 12 million on the 504; we've created 576 jobs. With our USDA money, we've lent over a million and a half for 113 jobs. Our revolving loans, over 6 million creating over 1300 jobs. In the microloan, we created 67 jobs with $667,000 lent.

I want to thank you for your genuine concern and your willingness to hear my story.

Senator CRAPO. Thank you very much.

Mr. Lynn.

STATEMENT OF JOHN LYNN, DIRECTOR, IDAHO SMALL BUSINESS DEVELOPMENT CENTER, POST FALLS, IDAHO

Mr. LYNN. Let me scoot up over here.

Senator CRAPO. Yes, I think you can pull that cord a little bit, too.

Mr. LYNN. All right. Thank you, Senator. Again, I appreciate the opportunity to be here today. My name is John Lynn and I'm the Regional Director for the Idaho Small Business Development Center. I'm housed at North Idaho College and we cover the five northern counties of the panhandle of Idaho.

Our office provides one-on-one business consulting services to start-up companies and small business owners. We also do market research for companies through our State office in Boise and the University of Texas. We also provide training services to small business owners and entrepreneurs throughout the five northern counties. Last year we provided 1,631 hours of one-on-one consulting services to over 247 different businesses. We also delivered 3,185 hours of business training to 531 individuals throughout the State.

How we are funded is pretty unique. We are a combination of Federal, State and local funding. We get about one-third of our funding from a grant from the USBA every year that we negotiate; one-third of our funding comes from the Idaho legislature; and one-third of our funding comes from North Idaho College. My staff consists of myself as full-time Director and Business Consultant, a part-time Business Consultant that works about 19 hours a week, a full-time Training Director and QuickBooks Consultant, and then a half-time Administrative Assistant. Basically two and a half people to cover all of North Idaho.

Small business development in North Idaho presents many challenges. One of the things is Kootenai County and its accelerated economic growth doesn't really reflect the other areas in the Idaho Panhandle. Unemployment rates continue to be higher than the national average, and most areas have experienced significant job losses due to the downturn of the natural resource based economy up here.

The biggest challenge facing our office is to try and meet the increasing demands for our services. Grant funding from the SBA has been flat since 1997. But they request more services every year and the number of people we see and the number of training hours that we deliver.

Our rural outreach, being an important part of the SBDC mission, is becoming increasingly difficult to provide SBDC services to rural North Idaho that have an economic development impact. I mean we can go and see a lot of different people, but are we really making an impact in those rural areas without spending a lot more time and resources up there?

Our challenge is to try to leverage our resources with other economic development organizations to provide business development services outside of Kootenai County. To be successful, I think what we need to do is change attitudes in the rural counties up here. We need infrastructure that needs to be developed, access to capital

needs to be improved, and a concentrated and coordinated effort must be developed between the economic development service providers.

Our office works very closely with the various banks and loan funds and economic development agencies in the Idaho Panhandle; and without the SBA loan programs, the 7(a) program in particular and the microloan program, access to capital for start-up for existing small businesses would be nonexistent. Well over 90 percent of our clients that receive loans have an SBA guarantee associated with it in some way or another.

A qualified business in Kootenai County, if it applies for a business loan, has many choices of lending institutions. The same cannot be said for rural regions in North Idaho. Without the loan funds available through PAC, access to capital in rural Idaho is very, very difficult. In fact, even in Kootenai County, it's the small community banks that are doing the majority of the lending to the small business and business start-ups; loans less than $200,000.

In conclusion, the SBDC program in Idaho is being required to meet ever-increasing milestones from the SBA without any increase in resources. If the only area we were required to serve is Kootenai County, then that would be great because we could keep busy right here in this county. But if we want to do some rural economic development and make an impact, we've got to spend some time and resources up there. Thank you.

Senator CRAPO. Thank you very much, Mr. Lynn.

Mr. Deffenbaugh.

STATEMENT OF JIM DEFFENBAUGH, EXECUTIVE DIRECTOR, PANHANDLE AREA COUNCIL, INC., HAYDEN, IDAHO

Mr. DEFFENBAUGH. Morning, Senator Crapo. Thank you for this opportunity to speak.

Senator CRAPO. It's working. Just pull it pretty close.

Mr. DEFFENBAUGH. Okay. I would like to speak on the needs of rural businesses. I believe I've got a unique perspective on the subject since, during my career, I've both acted as Administrator of Small Business Services and operator of small businesses. I owned a chain of convenience stores and was a partner in a large CPA firm. In both of those rolls, I watched programs evolve and recognized through the efforts of hearings like this, these programs are improved, and it's unique that you're allowing practitioners to at least express their view.

Rural businesses face challenges that simply aren't imposed on urban or suburban businesses. Many times, the cost or availability of transportation, for example, is an impediment to many businesses; and this is only one of many challenges faced by small rural businesses. However, when a rural business seeks capital for operating challenges or expansion, they're credit-scored against a standard established primarily by urban businesses. The financing standards therefore compound the challenges faced by rural businesses.

Additionally, in a recent move by the SBA to eliminate the community aspect of 504 lending, this may cause a reduction of this program's availability to rural businesses. The new ruling simply has removed the requirement of local credit involvement; and, in

fact, encourages large, multi-State certified development companies, without any local interest, to dominate the 504 markets. The multi-State development companies will have to concentrate on urbanized areas for efficiency and for the greater availability of deals. The result may be that the rural areas will be ignored or can't compete against the credit scoring of urban deals.

The SBA has the responsibility to operate their programs as efficiently as possible; and with the idea of only having to deal with a few large multi-State certified development companies, that's an appealing prospect. However, the potential loss of service to rural communities can have a significant impact on the availability of rural businesses, availability of capital for rural businesses.

The SBA may be testing the new program in the future; and I understand you, Senator Crapo, you were involved in seeing that the Small Business Intermediary Lending Pilot program was included in the reauthorization bill, Senate bill 1375. The pilot authorized the SBA to make 1-percent 20-year loans for up to $1 million on a competitive basis to up to 20 nonprofit lending intermediaries around the country. The funds loaned to the local intermediary will, in turn, be used to capitalize the revolving loan funds to make loans between $35,000 and $200,000 to small businesses.

There would be no technical assistance grant provided to the intermediary, and all the administrative costs for technical support provided to the business borrowers would be covered by the interest rate spread between the lending intermediaries one percent loan from the SBA and the loans made to the small business borrowers.

The Small Business Intermediary Loan Pilot program addresses a capital gap that we see in our lending by filling a niche not currently served by the SBA microloan, 7(a) guarantee, Express, or 504 programs in terms of underwriting criteria. The pilot would enable community-based lenders like Panhandle Area Council to provide loans between $35,000 to $200,000 that would be more flexible in terms of collateral and general underwriting requirements. For example, those required for 7(a) and 504 and/or size limitations like we have in the microloan.

Subordinated loans to starting or expanding businesses may play a vital role in spurring economic development in Idaho as they do in other States, both in rural and urban communities. The pilot program is not included in the House bill, and we are hopeful that it will be included in the final SBA reauthorization bill.

I would like to thank you for the opportunity to express my opinions.

Senator CRAPO. Thank you very much.

Mr. Kindred.

STATEMENT OF DOUGLAS L. KINDRED, RETIRED SMALL BUSINESS OWNER, AND CURRENT VOLUNTEER WITH SCORE, THE SERVICE CORPS OF RETIRED EXECUTIVE, HOPE, IDAHO

Mr. KINDRED. Morning.

Senator CRAPO. Good morning.

My name is Doug Kindred. I'm a SCORE volunteer. I was born in Wallace, Idaho, and spent most of my business career in Southern California, and returned home to Idaho 10 years ago. I'm a re-

tired small business owner whose career includes serving as a Chief Financial Officer and Chief Executive Officer for a subsidiary of a Fortune 500 Company. I've been a SCORE volunteer for 9 years serving as the Spokane Chapter Chair, District Director, and I presently serve as an Assistant District Director.

I'm a member of the Spokane Chapter of SCORE. Our chapter serves 10 counties of Eastern Washington and the 10 counties of Northern Idaho. We're currently located at the Spokane Area Business Information Center, a joint venture of the Spokane Chamber of Commerce, the SBA branch office, and SCORE.

SCORE-called volunteers are committed to do two things well: No. 1, quality, confidential, no-cost face-to-face or e-mail counseling; and No. 2, low-cost business training workshops on various skills. There are seven of us with an estimated 38 years of counseling experience who live and counsel in North Idaho. We've got a good range of skills. Four of us were small business owners, one currently serves as the Chairman of the Board of a bank in North Idaho. We can call on more than 35 counselors in Spokane for added expertise.

The Business Information Center is a valuable resource to our clients providing weekly SCORE training workshops, twice-monthly free loan briefings, and a comprehensive business library of over 1,000 books, videos, and softwares focused on entrepreneurship. Our clients can also access SCORE through the SCORE association web site, www.score.org, for more than 1,000 e-mail counselors coast to coast who possess 600 different skills.

We conducted over 100 face-to-face counseling sessions and donated more than 475 hours of volunteer service in North Idaho in fiscal year 2003. The counseling locations include the Work Force Training Center in Post Falls, the PAC Business Center in Hayden, the Bonner Business Center in Sandpoint, and the Job Service office in Bonners Ferry. In addition to the people we counsel, more than another 100 people from North Idaho traveled to the Business Information Center to attend a training workshop, a loan briefing, or utilize the services of our business library.

During the 9 years I have counseled in North Idaho, approximately 500 people have attended more than 25 all-day SCORE "Starting and Managing Your Own Business" workshops held in Lewiston, Moscow, Coeur d'Alene, Post Falls, Sandpoint, Bonners Ferry, and Kellogg. We partner with the small business development centers, local banks and local business men and women who sponsor and present at these workshops.

Approximately 25 percent of our counseling sessions are with existing businesses discussing growth issues, strategic planning, financial issues and problems associated with running a business. Fifty percent of our clients are women. Approximately 70 percent of our clients are considering starting a business and they're looking for financing, generally less than $50,000 to finance start-up costs and working capital.

We encourage our clients to prepare a business plan and we work with them to determine financing options. This past year we've assisted businesses in getting started, expanding, relocating, obtaining financing, and solving business problems. Three success

stories involving companies SCORE has helped are attached to my testimony.

The SCORE association is a line item in the SBA budget and is requesting a funding level of $7 million for fiscal year 2005, a $2 million increase. Additional funds will directly benefit our counseling activities in North Idaho. As volunteers, we generously donate our time to help small businesses. We are pleased to participate with other business assistance organizations and I want to emphasize that we work with other business assistance organizations in our area to help businesses in our community start, grow, prosper and create jobs.

SCORE is celebrating 40 years of volunteer service this year in 2004. On behalf of SCORE volunteers in North Idaho and the Spokane district, I want to thank the Senator and Committee Members for their support over the past 40 years. Thank you.

Senator CRAPO. Thank you very much, Mr. Kindred.

I want to thank each of you. You all paid very close attention to the clock and I appreciate that, and we'll have an opportunity now to have some dialogue here and some give and take in discussing some of these things.

Let me start first with you, Mr. Kindred, just to say I met with a SCORE group down in southwest Idaho that was just starting up a little while ago and kind of got a briefing from them on what SCORE does; and it seems to me to be a tremendous asset to those who are not only current small business owners but those who seek to start a small business.

Is the $7 million figure, the line item in the budget, is that going to be adequate, do you think? You may not know how that plays out across the country, but I was just curious as to what you're hearing.

Mr. KINDRED. There would never be enough, speaking on behalf of Ken Yancey.

Senator CRAPO. That's an honest answer, I think.

Mr. KINDRED. But in having a chance to visit with Ken and talking about the budget for next year, I believe that that would be more than adequate for what we're trying to accomplish in the next fiscal year. The programs we'd like to expand have been pretty well established, we know what we want to do, and we understand the constraints that go on nationwide. I think we'd be very pleased to get an increase in our funding level.

Senator CRAPO. Well, I'm actually very pleased to hear that the current proposal is increasing the SCORE funding by $2 million.

Something I probably should have mentioned in my opening remarks is that I'm very concerned about the SBA budget overall. If you look at the budget, Mike, is it over the last 4 years? Over the last 4 years, the SBA budget has gone down about 24 percent. It's reduced in size by about 24 percent. As you all, I assume, know, I'm a strong fiscal conservative fighting for limited budgets back there in Washington, D.C.; and we are in some pretty difficult budget times, and so I don't have a problem with telling our agencies that the economic times and the budget circumstances we are facing right now require some sacrifice.

However, if you look at all of the Federal agencies, there are only four other Federal agencies in the entire Federal Government over

that same 4-year period of time that have had their overall budgets reduced. The others have all continued to grow, although maybe at a lower rate than they would like to have grown. Of those five agencies, including the SBA, that have actually gone down in size, none of the other four have approached the 24-percent reduction that the SBA has seen.

Given the fact that small business is the engine driving jobs in this country, I have a concern about that. Again, I don't have a concern about some sacrifice at the Federal Government level on budget issues, but I do have a concern about our priorities and who we are asking to share those sacrifices and how we are doing it in the budget.

That's why I'm going to be asking a few questions about different aspects of the budget; and I'm glad, actually, you were testifying that there's actually a proposed increase for SCORE. One last question on SCORE. Among the counseling you described there, I would assume that a significant aspect of the questions that are brought to you or to the SCORE representatives have to do with access to capital. Is that correct?

Mr. KINDRED. That's correct.

Senator CRAPO. And you have the ability, either yourselves or through the system that you have, to find the expertise to help small business owners or those who are potential small business developers to understand and identify the best access to capital that they can get through the SBA programs.

Mr. KINDRED. That would be correct.

Senator CRAPO. Go ahead.

Mr. KINDRED. Well, I was going to just comment that we try to work with them in preparing the business plan, but as a part of that process we're trying to identify what's the best source for them as well. We do know the banks, we do know John Lynn in the Small Business Development Center, we know Jim and what they do at PAC, so we can direct them to some of these people when they're going through this process.

Senator CRAPO. Okay. Good. Do you have any experience or could you give me, if you have, an opinion on the question that has been raised by several of the others on the panel about the availability of capital for small business in rural areas as opposed to urban areas? Is it easier or harder to get access to SBA capital in those rural areas?

Mr. KINDRED. I would prefer to let the lenders probably talk about that.

Senator CRAPO. Sure.

Mr. KINDRED. The sense that I have—again, I'm talking about the people that we counsel—the majority of these people, when it comes right down to it, family, friends, savings is going to be the best avenue for them.

I would say to you that we invite local banks to speak at our workshops, and I've had a number of the local banks basically say, in front of our attendees, that, "We don't finance small businesses unless we have 2 years' worth of history." That's sort of closing the door on a lot of people that are sitting in the rooms attending our workshops.

Senator CRAPO. Well, you know, that's an issue that has been raised to me by small business owners; and I was going to go somewhere else, but let me go there right now and expand this to the rest of the panel. Any of you, please feel free to jump in. How does a person who wants to start a small business do so if they have to have a 2-year history before they can get access to capital?

Mr. LYNN. Well, again, like we do a lot of clients in rural North Idaho and the microloan program is essential because most of these people that are going to start up are going to start up on a smaller scale basis and they need $20–$25,000 of start-up capital; and the banks are not going to lend that money, especially in rural North Idaho.

As I mentioned previously, even the community banks in Kootenai County that are doing most of the lending—it's not the larger banks—they're cherry-picking the good deals and the community banks are picking up all the slack. That's the way I see it.

Senator CRAPO. Any others?

Mr. Ferguson.

Mr. FERGUSON. If I could just make a comment there. John's exactly right. Of the 300 people or so that call us, 200 or more have already been to the bank. The problem is the banks have changed dramatically, too. Most of the people that had discretionary loan limits that were in the local branches are gone and now everything's in a different center. Now, a lot of the lending is still being done by the banks, but a lot of times we needed to help them find the right person maybe in another city to get that loan because they aren't going to find it in their local branch; so that's where part of our coaching comes into play there. But so many of these loans are very modest, and I don't see anybody else out there with us except for the microloan program.

But in answer to your question about how do you start if you have less than 2 years' history, it's basically because of a very good business plan and the projections that primarily the Small Business Development Center does. If we buy into it, we'll go ahead and fund as best we can.

Senator CRAPO. All right. Let me ask you just generally, as a panel, to help me be sure that I understand sort of the waterfront, if you will, of loans as you all testified. I heard reference to the 7(a) program, the microloan program, the Community Express loans, the 504 loans, and the intermediary lending pilot program that Mr. Deffenbaugh talked about. Are there other loan programs, if I were to just want to establish the list of programs out there that are available to deal with?

Mr. FERGUSON. The Department of Agriculture has their intermediary lending program, I think it is similar to what you've proposed here for SBA. It's an excellent program. It fits that niche between $50,000 to $150,000 that we need. It's a very borrower and lender-friendly program. In fact, the department even does the environmental studies, which are kind of a pain for the lender and other things of this nature, and we're able to do it at a very low rate.

Most of our programs right now are at 6-percent fixed rate for the full term, which can be up to 20 years, because we're able to borrow at 1 percent on a longer amortization. It's been very effec-

tive, but the money's hard to get if you don't have the big matching pool to get the points.

Mr. DEFFENBAUGH. There's also two other sources in Idaho. One is a Federal program, and that's a revolving loan program established by EDA, the Economic Development Administration; and the other is a State rural block grant that was granted to, in our case, ourselves, and that is Panhandle Area Council, to establish a revolving loan fund, also. The resolving loan funds, again in this case, the State money matched the Federal so that we could capitalize that at a reasonably high rate.

One thing to understand in all these loan programs that we have and we administer, we're never the sole source lender. We partner with banks. That makes both the capital go a little bit further plus it also introduces the banks to the businesses. There's an opportunity where possibly a bank would not do a deal except for the fact that there's a revolving loan fund or microloan money in the deal that gives the bank a better opportunity to participate in the programs.

Senator CRAPO. All right. Thank you.

Mr. Ferguson, didn't you say that the microloans were being eliminated in the current budget proposal?

Mr. FERGUSON. That's what I've read from information I got from the SBA web site. They're proposing that it be replaced with the Community Express Program.

Senator CRAPO. Can you explain to me the difference between the microloan program and the Community Express program?

Mr. FERGUSON. I'm not a 7(a) lender, so I'm not sure of all the aspects of the Community Express. I understand it's supposed to be a little more borrower-friendly and banker-friendly in that it uses the bank's documents, and other things like that, as opposed to all of the SBA documents. Other than that, I don't see that there's a big difference between that and the SBA 7(a) program.

Now, with the micro, we borrow the money in a pool from the SBA, we lend it out, we're the underwriter, we're the originator, we're everything, and the documents are very user-friendly in this case. It's done primarily with John at the SBDC and the borrower and we help them put it together, but it's just for very modest loan amounts. It's from a thousand to 35,000. The rates, unfortunately, are slightly higher; but they aren't bad, they're in the high nine range. The SBA does charge us a little higher rate, too.

Senator CRAPO. The Community Express, is it targeted to that $1,000 to $35,000 range?

Mr. FERGUSON. I really don't know for sure. I doubt that it goes down to a thousand. I'm inclined to think it's more like maybe $10,000 to $35,000 but it's a new program and I'm not a 7(a) lender.

Senator CRAPO. Okay. It just seems to me, getting back to the question of those who don't have that 2-year track record and may need to be getting some early access to capital, that if we eliminate the microloan program, we may be creating more problems than we are solving in terms of budget problems.

Now, you indicated that you borrow the money from the SBA. I assume that means you repay the money to the SBA.

Mr. FERGUSON. That is correct. We have to repay the loan. We have loan loss reserve, and all those other issues. So PAC is at risk.

Senator CRAPO. Do you know if, for the country, whether there is a track record on the microloans in terms of whether the SBA faces a credit risk there? You see what I'm asking? In other words, does the SBA get its money back under the microloan program nationally?

Mr. FERGUSON. I guess I wouldn't want to comment on that. I know that they do consider it to be an expensive program in terms of a dollar lent and dollar of cost. I know that's a consideration. Whether or not their default ratios have created an issue, I'm not sure.

Senator CRAPO. I'm going to see if I can answer my own question here. Well, according to some information I've got right here, an analysis that we have of the microloan by the SBA, revealed that—am I reading this right?—every dollar lent cost the taxpayers 97 cents? Does that mean they only got 3 cents back on the dollar? That doesn't make sense to me. I'm going to have to check that out.

We're going to have to look into this to find out because it seems to me that there has to be a reason that they were going away from the microloan program, especially if it fits this initial niche. If any of you, either in the audience or here, have some information about that, I'd be glad to receive that information as a supplement to our record today.

My intention here is to go back to the SBA, through my service on the Small Business Committee. I also, by the way, sit on the Budget Committee; so we're going to write the budget that these guys all get to use, too. In both of those contexts, I want to be able to make sure we put the right line items in place and maintain the programs that may need to be maintained.

I just cannot understand that. Unless there's a 97-percent loan default rate, I can't understand that figure. I don't think there's going to be a—you don't have a 97-percent default rate, do you?

Mr. FERGUSON. No.

Senator CRAPO. All right. Thank you.

Mr. DEFFENBAUGH. One other thing, just in answer to that, that I'm aware of, when the program was initiated, traditional lenders, like Panhandle Area Council, were not allowed to participate in the program. It was focused more on social service agencies that really had not been traditional lenders. It evolved over the years and it allowed traditional lenders to participate in the program.

Senator CRAPO. Maybe some of that early circumstance may be generating some of the statistics. Well, I can assure you I'm going to check into that because that number really surprises me.

What about the 504 program? Tell me exactly how it works and what niche is it supposed to address?

Mr. DEFFENBAUGH. 504 is a long-term, fixed-asset financing program designed to help businesses either acquire new real estate and build buildings or manufacturing equipment processing equipment. When the program was established, the idea was that a local community would create a board. The board would then look at the deals and determine whether there was a job creation requirement and whether it fit within the community.

In fact, there were cases where our board, Panhandle Area Council's board, has turned down loans because either the loan was going to be—the building, for example, was going to be put into a place that just simply didn't work within the community, or it was a replication of some of the businesses that we had and it was a new one and we didn't want to see it be competitive or uncompetitive, in a sense, of other businesses.

What has changed is the SBA will allow now that the community aspect is no longer a requirement and a certified development company no longer has an area that they're required to operate in. In our case, we can operate anywhere within Idaho, instead of just the five northern counties, which we'd previously done. If we operate—we can request to operate in an adjacent State. Ultimately, that will mean that larger certified development companies can literally leapfrog across the United States and do deals anywhere. From SBA's point of view, quite honestly, they're going to have to only deal with a few large multi-State lenders in this case. But that's what happens.

However, the multi-State lenders are going to look where the big markets are and they're going to ignore the rural areas or they're going to hope that banks will bring them to them. They're not really going to go out and market them and be a part of that community, and that's what we see as a fault in this change.

Senator CRAPO. How can we correct that? What would be the best thing for me to do to go back to Washington, D.C., to make something to happen? Would we put a statutory requirement in of some sort? If so, what would it be?

Mr. DEFFENBAUGH. I guess from my point of view, probably the biggest thing is to—maybe not to allow the multi-State ones or limit the number of States that they can operate in and not have the SBA eliminate the rural 504 development companies.

Right now we are under the pressure that if we don't basically compete, we feel eventually we will be scored against the larger multi-State certified development companies, that they may cause us to be eliminated. One of our certified development companies in Idaho has already been decertified in the Lewiston area. The other four that exist, I met with them last week, we are all concerned that we may not have the opportunity to compete.

Senator CRAPO. Tell me how the scoring works. You have a series of loans that you work on.

Mr. DEFFENBAUGH. Correct.

Senator CRAPO. If you focus on rural areas, those loans will have a different dynamic than a packet of loans from an urban area. Give me a little bit of a feeling. How does that then translate into a bad score?

Mr. DEFFENBAUGH. Right now the score is the total number of dollars in loan and the number of deals that you do. We are required, at a minimum, to do two deals a year; and I don't believe there's a capital amount. But when the SBA sends out the performance criteria, it's done by actually dollars not number of deals. That certainly is one of their considerations. You can see that the pressure in the future is going to continue to do that.

Evergreen, out of Seattle, is a large certified development company. As you might imagine, in Seattle there are a lot of deals to

do. They have been expanding and looking into this area wanting to do things. Quite honestly, they came over here and we worked with them to see if they could do things here and to help our process a little bit. Since they're so good at it, we thought we could learn from them. They couldn't find a deal in a year.

They were only concentrating on the Coeur d'Alene area. They really didn't look at St. Maries or Bonners Ferry or Sandpoint. That's where we look a lot to try to find our deals.

Senator CRAPO. The thinking would be that the large companies would just come in and basically pick the easy deals.

Mr. DEFFENBAUGH. Exactly.

Senator CRAPO. And get a higher score because they are able to do the easier, larger deals presumably.

Mr. DEFFENBAUGH. Ultimately, yes.

Senator CRAPO. Then those who are out there servicing the rural areas are going to be scored lower; but the service, as I see it, is the more needed service.

Mr. DEFFENBAUGH. Exactly. We obviously receive a service fee to continue our operations on these. If we are no longer allowed to do the deals, if we can't compete, and if we are seeing a lot of pressure doing the deals in Coeur d'Alene, for example, eventually the ability for us to continue to operate is diminished.

Senator CRAPO. Okay. Mr. Lynn, this is primarily directed at you because I focused on this during your testimony. But any of you who want to jump in on any of these questions, please feel free to do so.

You were talking about what we need to do, and one of the first things on your list was to build out the infrastructure in our rural areas, which has been one of my big focuses. This doesn't get directly at access to capital, although it is, I think, what would make a lot of these potential start-ups more qualified for access to capital. But I just wanted to get on the record a short discussion about this issue because it seems to me that for our rural areas in terms of economic development, that perhaps the most significant thing we in a policy position can do is to make sure that they have the infrastructure in place in order to participate in a global economy. Would you agree? Could you expand on that a little bit?

Mr. LYNN. I would definitely agree with that. I mean access to broadband, internet fiber I think is a very important development in the business community right now. I mean you can do business globally if you can have the capacity to do that. Other issues I think that need to be expanded are our transportation issues. If you're manufacturing a product in St. Maries, it's very difficult to get it to the market. I don't have an easy answer for that one. But the broadband is something that I think could be addressed at a national level.

Senator CRAPO. Thank you. The second point that you made, that we need to increase the access to capital, if we could get the infrastructure built out and in place, increase the access to capital, and coordinate between the various providers of capital so that we have an efficient system in place; is that an outline, on a broad scale, of how we should approach economic development?

Mr. LYNN. Well, I think there's a lot of agencies out there saying we're economic development agencies.

Senator CRAPO. Yes.

Mr. LYNN. I don't think the lines of communication are always coordinated between the economic development agency in that particular county, through us, through the various community banks, through the Department of Commerce, and the Department of Labor. Everyone kind of goes in and does their own little thing, and I think to make a real impact, everyone needs to be coordinated on this and maybe a master plan put together or something that says, "This is how we can make this work and here's your role in it."

I mean I think everyone's—it's the turf issue. "Well, this is what we do," "This is what we do." Well, you know, let's all get together and do it better.

Senator CRAPO. That wouldn't just be Federal agencies.

Mr. LYNN. I think that local, Federal and State agencies need to have a little better communication so we're not duplicating services and we're working together to actually do something.

Senator CRAPO. As you're describing this, I think that's a very cogent thought. I'm trying to figure out how we would make it happen. Have you got a suggestion we could pass along here?

Mr. LYNN. Yes. I guess it comes down to why doesn't Kellogg work with Wallace? It's one of those issues that has always been there.

Senator CRAPO. I'm not sure I want to create a superagency that would manage all of this, because we might just have more bureaucracy. I really believe you're onto something, but I'm not quite sure how to make it happen.

Mr. LYNN. I don't think I have the answer to that. I don't know. But I think there could be a better effort made in the rural areas of North Idaho.

Senator CRAPO. Thank you. I agree, and I'm going to be trying to give that some thought. One of the problems we have is there are a lot of great ideas. We try to make laws out of them and put some enforcer in place to make these good ideas happen. However, sometimes we get something worse than we started out with.

But I really believe that coordination idea is important because one of the things that I've found as a Member of Congress is my constituents come to me often with questions about—kind of probably the same kind of questions they go to the SCORE folks with—How do we do this? What resources are available and what can I do? I would have thought, you know, I could ask somebody on my staff to call up the "How Do You Do It Agency" and say, "Where's the list? Where's the checklist of what you should do here and how you do it?" There isn't such a thing. Although there are—we are getting there. We've got—in certain categories in certain areas, we can do it. But if we had a more cohesive approach to coordination among the various services that are provided, then that might work. Perhaps the folks at SCORE are putting that together. There might be an expert at SCORE who could be the one that I'd get my staff connected to who could answer us.

Well, a lot of ideas and suggestions I think have come forward to me, and I just wanted to kind of wrap this panel up by giving you some of my thoughts right now and then asking if any of you have any further comments on them. But it seems to me that, clearly, we have the overall budget issue in terms of resources at

the SBA, which is going to—frankly, be kind of a broad part of the overall budget battle, just to be sure we have the amount of resources in the SBA to do the job.

But I can tell you that I believe that of all the functions that the Federal Government performs, right now our economy needs jobs and we need that engine that drives jobs to be operating as efficiently as possible, and I believe that's the small business community in our nation. I believe that in terms of where we put our focus as to the resources that we do have in the Federal budget, this should be one of the higher priorities. That's kind of a first step.

Secondly, I do believe that rural America faces a much more significant problem in terms of getting access to capital and having the infrastructure that promotes strong business development and economic growth. As a result of that, we've got to pay attention to things like the infrastructure and making sure that, in the SBA context, the programs that we operate are operated in such a way that they facilitate reaching out to and promoting the right kind of business opportunities in the rural areas rather than, as some of you have testified, creating a scoring system that's going to focus on urban areas or the like.

As I'm looking at it, I'm going to go back—we clearly have to fix the 7(a) loan program. We all know that. That's going to be mostly a budget issue, I think. Secondly, I'm going to go back and look very carefully into the microloan issue to determine just what is going on there and why and whether we need to make sure that that tool remains available. From what I've heard today, it sounds like it should.

The 504 loan programs and the developments there, particularly with the larger companies and the multi-State lending companies dominating, which will then pull away from the rural communities, is an issue I think we need to look at very carefully, and I promise you we will do that.

I'm pleased to hear that this pilot program that I've been involved with sounds like a good idea and it looks like it's filling a good niche. We'll try to make sure that it not only survives but that it could possibly become more than a pilot program, become more than another one of the aspects, on a permanent basis, that we operate through.

With regard to SCORE, I guess I'm just going to make sure that you get your budget.

Mr. KINDRED. We certainly would appreciate that.

Senator CRAPO. That kind of, to me, sounds like where I'm headed from what I've heard from this panel. Any further comments from any of you?

Mr. LYNN. Thank you.

Senator CRAPO. All right. Well, I thank you very much. We will excuse you and move on to our second panel.

Senator CRAPO. Those who have been invited to be with our second panel are Mr. Bob Beck, the Vice President of SBA Lending at Mountain West Bank; Ms. Debbie Lawton, Business Development Officer at U.S. Bank; and Mike Brown, the Business Development Officer at Borrego Springs Bank. We'll put some name tags up here for you. You can sit at the designated spot and we will

have you testify in the order that I read your names. Same instructions apply to you. Please try to pay a little bit of attention to Mike over here or I'll have to tap the gavel.

Mr. Beck.

STATEMENT OF ROBERT M. BECK, VICE PRESIDENT OF SBA LENDING, MOUNTAIN WEST BANK, COEUR D'ALENE, IDAHO

Mr. BECK. Morning, Senator Crapo.

Senator CRAPO. Morning.

Mr. BECK. I'm Bob Beck with Mountain West Bank and I'm the Vice President and Manager of the Small Business Lending Department. Thank you for allowing me to address you today.

We are very concerned about the SBA programs as we know them today. They may be putting small business lending here in rural America, and elsewhere, in jeopardy of obtaining access to capital necessary for the beginning and expanding of their business. We are especially concerned in the following four areas: funding, restructuring of existing rules and procedures, centralization of loan processing, and the possible elimination of SBA-supported consulting services.

I'll first address the funding issues. The funding of the SBA loan program seems to be an issue almost every year. I believe the funding crisis could be avoided if the SBA would form a dialogue with their lending partners and other experts in the field such as NAGGL. The current budget of $9.5 billion will probably not be sufficient and will, in all likelihood, be $3 billion short for the fiscal year 2004.

Caps of $500,000 and $750,000 have been put in place in recent years and, in addition, the elimination of the piggyback loans most recently, which are causing problems. We would request that both the piggyback loan structure be put back in place immediately and the maximum of the $2 million loan be reinstated as quickly as possible.

The SBA is beginning to get a reputation of on again and off again. Consistency and integrity is a must. We need to immediately reestablish what the SBA loan guarantee program is all about, particularly by providing capital to small businesses that would otherwise not be able to get funding and business assistance without the SBA loan—the SBA's participation.

In a recent announcement by the SBA, they have proposed to fully fund the program but only by providing much less of a guarantee and charging less than guarantee fees. This will have a dramatic effect of reducing capital to small businesses. Lending partners will be unwilling to lend with less of a guarantee due to lack of collateral especially with start-up businesses or expanding businesses that have less than adequate liquidation values to support the loan. Larger loans do create more employment opportunities.

Larger loans do create more employment opportunities. Larger loans provide more guarantee fee income to the SBA, up to 3.5 percent on larger loans as opposed to 1 percent on loans less than $150,000. The piggyback loan has been stopped, which again limits access to needed capital. Lending partners must be willing to explain to small business owners clearly and precisely the rules and regulations with consistency.

Centralization: It is our understanding the agency is planning to centralize all the loan processing by eliminating 138 loan officers in favor of 36 centralized loan decisionmakers. Even though our bank participates in the Preferred Lending program, we constantly rely on the district office to provide guidance and answer questions. We are desperate to preserve our SBA loan office in Spokane, Washington so they can continue to provide service to small businesses as well as lending partners. We need to learn from larger banks as to the benefits they may have gained from centralization.

The SBA plays a crucial role in providing services for small businesses through organizations such as SCORE, and Small Business Development Centers. In addition, Business Information Centers play a vital role as a resource for start-up and existing businesses. Local loan officers are very active in presenting loan applications with guidance on how to apply for the loan with their lending partners. These services also include assistance with export trade loans, HubZone classifications, 8(a) contracting statuses and many more.

In light of these pending closures, we are somewhat perplexed how the SBA could justify the recent announcement of two new offices in Alaska. We don't understand how these new offices are opening when the SBA office is a proven area that needs to remain open and continue to provide the services already in this existing, proven rural market.

Thank you for allowing us the opportunity to present these matters to you.

Senator CRAPO. Thank you very much, Mr. Beck.

Ms. Lawton.

STATEMENT OF DEBBIE LAWTON, BUSINESS DEVELOPMENT OFFICER, U.S. BANK, COEUR D'ALENE, IDAHO

Ms. LAWTON. Senator Crapo, as a lender under the SBA loan program and a small business owner myself, I'd like to thank you for letting me testify here at this hearing this morning.

I'm an employee of U.S. Bank in our Small Business Administration, and I have spent the last 14 years of my career helping small businesses access funding through the Small Business programs, to help them grow their businesses and start their businesses. During my career, I've approved loan funds as small as $5,000 up to multimillion dollar loans, and I've helped assist numerous businesses under virtually every industry out there.

This has been a very gratifying career for me as without the SBA program, I am the last resort lender here under most banks. The Small Business Administration lending programs are indispensable for this country's economic health. It is common knowledge that the majority of all jobs are created from the small businesses. It's also common knowledge that the majority of small businesses do fail within the first few years; and as a lender, I can recognize the bank's risks in lending to these small businesses.

Many bank policies preclude lending to small businesses without that 2-year historic debt service. Without the aide of the U.S. Small Business Administration loan programs, many of these small businesses would not be able to obtain their financing that they would need to create these jobs that are so needed in our economy. Ac-

cording to a recent article in the Chicago Tribune, the SBA program backs 40 percent of all long-term lending to the country's small businesses.

In most years, the SBA loan program has been able to meet the needs of both the lenders and the businesses. I know that through recent things that are going on right now, some of my testimony is being resolved at this point, and that's a good thing. However, the recent shutdown of the SBA's 7(a) loan program, many banks—and that's estimated—many businesses, estimated at about 200, have been caught in the middle with no place to go. This shutdown and this subsequent capping of the loans at $750,000, along with the first-time ever prohibiting the piggyback loans, has caused the SBA to slam the door on at least $1.3 million loan requests as of 12/30 alone.

Many of these small business owners do not qualify for other loan programs, and they do not have time to switch those programs. I was personally handling two business acquisitions with purchase prices over $1.2 million. With the capping of the $750,000, they had to come up with a large sum of money; and in today's economy, that's almost impossible. Some of these people do not qualify to—these two people, they were business acquisitions—they did not qualify for the 504 program. Although they called your office to complain, they were told to find a 504 lender. These guys did not qualify for 504. It's a business acquisition.

I'm also dealing with a $2 million refinance for a car dealership. It is a balloon payment and, since it's a refinance, it's not eligible under the 504 program. Once again, because of job creation, it doesn't qualify for 504, so I can't help this guy. I don't know what he's going to do with his employees. I don't know what he's going to do with his business.

The fact of the matter is that the SBA did shut down this program; it's limited us to caps, it's limited to—prohibiting us to doing piggyback loans. Basically we need to find the budgeting. I think that's being worked on at this point. They're asking to lower the subsidy rate, which I have fears will increase our fees. They have come out with solutions. They've not really come out with plans for these solutions, so we don't really know how they're going to meet these goals. They sound like a good fix, but let's just hope that it does get there.

Senator Crapo, we need your help in appropriating sufficient funds to the program with future budgets without raising the fees that will be associated with the programs so that both lenders and borrowers can utilize the program and to their best ability.

Thank you for your opportunity to present my story.

Senator CRAPO. Thank you very much.

Mr. Brown.

STATEMENT OF MICHAEL BROWN, BUSINESS DEVELOPMENT OFFICER, BORREGO SPRINGS BANK, COEUR D'ALENE, IDAHO

Mr. BROWN. Is this on? Hello.

Senator CRAPO. Yes, now it works.

Mr. BROWN. All right. Thank you very much for the opportunity to present my opinion of what's going on with access to capital in the smaller markets. I've been involved in finance for almost 30

years. The majority of it has been dealing with small business finance both in economic development and SBA-guaranteed products. Rather than reiterate what Bob and Debbie have said, I will go to the points that I think are specifically important in what's going on right now.

The SBA program, whether the bank is big, large, small, in between, there is somewhat of a network within the banks, regardless of the size, if a loan officer within the bank can't get it done, they want to get that loan done, so they'll call one of our—we're all associates, we all know one another—and describe the project in general terms to see if there's an interest in financing that program.

I hear the larger banks getting beat up upon to some degree in economic development finance when, in fact, a large percentage of the referrals that come to me, because I do regional lending through Montana, Idaho and Washington, come to me. If they can't get it done for one reason or another, I get the opportunity to do that. On the other hand, the small banks that have lower loan limits or a more constructive loan policy will also call me to see if I can come in and get involved and assist with the financing. I don't know. I think that the criticism of the larger banks is a little bit overplayed in that what goes on is not widely known in the finance community or the economic development community.

One of the big concerns and problems with doing SBA financing is the inconsistency with the funding programs. We don't know how to plan. We're all profit-making entities and we need to plan our budget, annually at least; ideally, longer. When the program continues to fluctuate on again, off again, the guaranteed percentage changes, it disables us from doing that effectively.

There's recent talk of reducing the guaranteed percentage downward, which I think would have a devastating effect on the program itself. The original program to have an SBA guarantee with a conventional commercial loan, was to supplement a collateral deficiency or one other weakness in the credit. With the 75-percent guarantee, that provides the strength of the credit that maybe all the other criteria is there for a loan so that the lender's more apt to go forward to it. To reduce that is going to have a measurable effect on non-real estate or non-heavily-collateralled projects, which was the very reason I think that—one of the reasons that I think it became there.

I think that reducing the guaranteed percentage will reduce radically the number of lenders in the arena and significantly reduce the access to capital by the rural businesses because in the urban areas, the collateral values of property appreciation and value of collateral available is oftentimes a lot stronger.

The centralization that is being talked about with the SBA draws the local input of the loan officers into two regions of the United States rather than 80-some offices. Those local lenders—or the local loan officers that I've worked with in Portland, Seattle, and Spokane—know the local business, they know specific borrower over time, and they know the local dynamics and are able to make considerations that might not otherwise be made in a checklist-type approval process if centralized. I guess that's a pretty general summary of everything that I have. Thank you very much.

Senator CRAPO. All right. Thank you very much.

Before we get into some of the questions that I have on the specifics that you have raised, I wanted to get into an issue, Mr. Brown, that you raised in your testimony—it's the question of the impact of bank consolidation on access to capital in rural areas.

One of the things that the small business community or the SBA has found in some of their findings—in fact, there was a report issued just last week by the SBA's Office of Advocacy titled "The Impact of Bank Consolidation on Small Business Credit Availability."

First of all, have any of you seen or heard of that report?

Mr. BECK. Yes, I read it.

Senator CRAPO. Okay. One of the findings of the report is that, "Credit access for small businesses has been significantly reduced by banking consolidation and that, as a result, small businesses have increasingly turned to nonbank sources for financing to provide credit access."

I'm not sure how much of that impact is expressing itself in Idaho. In fact, Mr. Brown you indicated that the larger banks do work very well with you, if I understood your testimony right.

Mr. BROWN. Yes, right.

Senator CRAPO. I am interested in your views as a panel on these findings and particularly what kind of impacts we are seeing in Idaho as a result of bank consolidation.

Mr. BROWN. What I think is the most important to any lender is to have continuity in the program. Private sector financing will adapt to whatever they have as long as it remains in place. The large bank consolidation has taken a lot of the local lending out of the local smaller branches and they concentrate in the more urban areas, which is a logical financial decision. A lot of the talent that was in the little branches that get purchased by the larger banks gets drawn out into the areas of more demand. But, nonetheless, they do still maintain a presence and they do refer the loans to their head office. Oftentimes, unfortunately, those are declined.

But as you see the consolidations, it creates a void where a smaller community bank does pop up and begin to replace that local input. Over time, it begins to happen. The nonbank lenders—I happen to work for an actual bank, but I am a Regional Lender acting much like a nonbank lender in that we—I do financing anywhere over a three-State area. If the local businesses have knowledge that us regional lenders exist and/or the bankers that can't get the project done once they get centralized and their focus is more urban, if they will refer out to the regional lenders, then I think it would be helpful to the rural community.

Senator CRAPO. All right. Mr. Beck, did you want to comment?

Mr. BECK. Yes, I would. As larger banks get larger and these consolidations move about, those bankers will typically want to do the larger loans in urban areas and so on like that. They don't supply enough personnel to operate in these smaller communities where their entire budget is a minute part of their overall goals for making loans; whereas in community banks, our sole survival is to provide loans to small businesses in our area where we are headquartered and operate. This is part of the community develop-

ment, and I think it's crucial to keep the hands where they need to be especially in the small business lending unit.

Senator CRAPO. Thank you.

Ms. Lawton, did you have an opinion on that?

Ms. LAWTON. As a larger bank myself, I know that some of what they're saying is true; we are in there for a profit and we can make the profit in the urban areas and with the larger loans. But as a Business Development Officer for U.S. Bank, which I believe is the third largest bank, I am servicing those smaller urban areas as well and I am—a lot of my loans are coming out of there. I am not as profitable as some of my other counterparts in the urban areas, but we're out there, we have a presence. I can't speak for the other large banks, though.

Senator CRAPO. All right. Thank you.

I want to go back to what I think is a common theme among the three of you, which is that the problems we've had at the SBA, particularly with regard to funding, are creating an inconsistency that makes it difficult to do business; not just for you but for those who want to gain access to capital in the country.

With regard to the 7(a) loans, I think we can stipulate, I agree with you, that the financing for those loans, which ran short last year, has created a serious problem; and we are now looking at a solution. The SBA has proposed a solution with a number of parameters that you've already identified that are raising concerns, and I just wanted to go over each of those concerns and then go back to the overall funding objective to see what we need to do to avoid; and then I'll take that back to Washington and see if we can actually get it done in the budget.

But the first point is that there is an effort to reduce the guaranteed percentage. Can you each just give me a little more input as to what impact will it have on your lending practices and on the access to capital particularly—I'm talking across the board, but, as you know, I'm very interested in rural Idaho. But what impact would it have on access to capital and on your business practices if the SBA's proposal reducing the guarantee percentage were to become enacted?

Mr. BECK. Well, I'll start. The way I look at it, the guaranteed percentages, they're pushing more and more for the Express programs and reducing the guarantee to 50 percent. When you get into that 50-percent arena, you're going to have to be very well collateralized. You're going to have to be very well documented on the cash flow issues, length of time in business, all of those traditional lending things that the regulators and auditors require of us banks, which is the basics of a lot of SBA loans, is the lack of collateral. We're not going to be willing to take "riskier loan" unless we're protected better. At the 50-percent level, does that really give us any protection? I would question that.

Also, when we get into the areas of smaller percentage guarantees, don't kid yourself. We, as a community bank, are in there for the premiums offered by the secondary market to help sustain us, to also give us the ability to make larger loans because that guaranteed percentage is pulled away from our legal lending limit. With that lesser of a percentage, again, it affects two areas: directly our income and then also our regulatory lending limits.

Senator CRAPO. All right.

Ms. Lawton.

Ms. LAWTON. Well, I would just feel that in the rural areas, we look at that property as more specific, not as a multi-purpose property, because the amount of people out there to purchase that business or purchase that property out there is very limited in the rural areas. If you were to start cutting our guarantees, we will back right out. A 50-percent guarantee is not going to be enough for us to go out to the rural areas. In the metropolitan areas and the urban areas, yes, we would still have enough to go out there to be purchasing and making up for some of these shortfalls for the collateral purposes. But in a rural area with a 50-percent guarantee, I would have to say that the bigger bank's probably going to pull out.

Senator CRAPO. Which obviously reduces the access to capital in rural areas more.

Ms. LAWTON. Absolutely.

Senator CRAPO. Mr. Brown.

Mr. BROWN. I agree with everything they both said and I'd like to reiterate the point about the smaller banks. There are lending limit issues with the 75-percent guarantee. 25-percent goes against their legal lending limit. If you cut that to 50, it has a dramatic effect on their lending ability.

Also, in the rural areas of North Idaho, the real estate values, as a percentage of an entire project, is measurably lower than in the rural—or in the more urban areas. The need for capital for equipment working capital and inventory is the same. When you break that down to a collateral available to secure the loan in a rural area, you have a lot less collateral available in the way of real estate versus what it is in the urban areas.

When the guaranteed percentage drops to 50 percent, when you're doing a discounted collateral value on the non-real estate portion of the project, it is anywhere from 50- to 90-percent discount to see what you're going to net out, that risk translates to everybody including the SBA. I do agree that if the percentage of guarantee is dropped to 50 percent, that most all lenders will constrict their 7(a) lending probably to real estate and probably to the more urban areas.

Senator CRAPO. In addition to the restriction from rural to urban which would result from this, it would push the loans more into collateralized businesses.

Mr. BROWN. Yes.

Mr. BECK. Absolutely.

Mr. BROWN. Yes. A 50-percent guarantee is probably close to a zero-percent guarantee when you're actually considering a net loss.

Senator CRAPO. Right.

Mr. BROWN. Is there a net there? No, it takes the net away.

Senator CRAPO. All right. That's very helpful.

Then the next part of the proposal is an increase in fees. Tell me what that's going to do other than cost money. I mean I know that, but—

Mr. BROWN. Well, I'll start on that one. As far as fees go, the fees are relatively high with the SBA program by its nature; but the fees are always an issue when anybody's looking at net profit of

any program, from the lender's side. But the access to the capital that's provided by the SBA programs can't be replaced anywhere else. There's just nowhere else to get it. The amount of down payment or equity required going in is relatively small compared to what is conventionally required.

If the fees sustain the program, let the fees remain. We would all like to see a reduction in fees, but compared to the availability and the value of the program, I don't think they're a significant issue.

Senator CRAPO. Ms. Lawton.

Ms. LAWTON. Well, I think in a lot of instances that the capital is coming into the business; the down payment is the driving force of why they're coming to an SBA loan. A lot of businesses out there have the cash flow, they have the experience, they just lack the down payment. If we raise the fees too much higher, they're going to be just as qualified to go into a conventional type lending, and won't be able to meet their capital requirements to get into it because we ask for those fees up front.

I think a lot of times that might preclude people from actually finding the financing because the fees are a lot higher if we continue to raise the fees.

Senator CRAPO. Mr. Beck.

Mr. BECK. Personally, I like the way the fee structure is right today. It's based on a mathematical formula to determine the subsidy rate necessary to fund the program. I support it. I think it's very important that the SBA realizes that they can generate their own fees to sustain this program.

Just as a "for instance," I did some quick calculations here. On a $750,000 guarantee at 3.5 percent, it generates $26,250 in fees. If they reduce that fees and reduce the size of loans to 1 percent, and if you do seven $150,000 loans and get that 1-percent fee, you're going to only generate $9,625. Now, to me that doesn't make sense in a profit mode or to fund losses that the SBA is going to have. Why would you want to eliminate that fee income? Granted, the small business does pay those fees and I understand that; but they always seem to be able to work through that especially with the longer terms that SBA has allowed.

If you break that down into the number of months that this loan is going forth, it doesn't seem like that much of a cost. I think we've also got to realize that it's the bank's responsibility to pay those fees. It's not necessarily always the borrower. Yes, the rules and regulations allow for us to be reimbursed for that, but I think we need to keep the fee structure where it's at.

Senator CRAPO. All right. The last thing I wanted to talk about in terms of these impacts of the proposals is the elimination of the piggyback opportunities. Again, I have listened to your testimony on that but would like you to explain just a little better to me just what is that going to do if this proposal is implemented?

Mr. BECK. Go ahead, Mike.

Mr. BROWN. Well, in the organizations that I've worked through in regional lending over the past 10 years, we used it a lot with the 7(a) program, and the reason being that the 504 program is excellent for real estate or for heavy fixed asset financing; but with the price of everything going up nowadays, there's a lot of parts of

the project costs that are not eligible under the 504 program and there's some instances where the 504 program is not—or the financing project is not eligible for 504.

In those instances, we used very frequently the piggyback program to, you know, put in a conventional first and then have the SBA in a supportive position. A big percentage of the projects we used the 504 whenever it's feasible because that's the best for the borrower with that low fixed-rate debenture loan, and it puts the lender in a good first lien position on the other 50 percent.

But where that's not possible, just in the short time that the program was suspended, and now since that 750,000 cap with no piggyback, personally, in the relatively few number of projects that I finance, I've run into several that I could not do anything for and I didn't know where to refer them to because there's just nowhere to go.

Senator CRAPO. There are no other options.

Mr. BROWN. No.

Senator CRAPO. Do you have any kind of a percentage idea yet, have you got enough of a track record with this new proposal that—could you tell me what percentage of the loans you're not able to do because of this?

Mr. BROWN. Well, it's been a relatively short period of time.

Senator CRAPO. Yes.

Mr. BROWN. But I'd say probably 20 percent of the inquiries I've had I've said that, "I can't do them now. Hopefully, it will change; and please hold on and maybe in a month or two," or whenever, and I keep them, their name and number, so that I can call them back. But I'd say roughly 20 percent at this moment that did not qualify for 504 and were too large for the $750,000 cap and did not qualify for conventional.

Senator CRAPO. Okay.

Ms. LAWTON. I'd say probably about 30 percent.

Senator CRAPO. About 30 percent for you? All right.

Did you have anything on this, Mr. Beck?

Mr. BECK. I'd just like to add that, you know, I've used the piggyback program several times, and what the piggyback really allows me to do is to take an ineligible company and make it eligible, especially for the use of proceeds. Also, it does directly supply more money and access to capital. If we can do a piggyback loan, I don't necessarily have to charge the guaranteed fee. Lastly, as far as I go, I was actually planning on the piggyback to remain in place, especially in light of what they did with the $500,000 cap. I was counting on that because I couldn't get my loans completely approved that were over the $750,000 mark, and I knew that cap was coming in place. That has resulted in three of the loans I have pending right now, three of the total 35 I've done are sitting there in limbo, and I'm hoping this piggyback loan structure gets back in place immediately.

Senator CRAPO. All right. I think that discussion has been helpful, and I believe it helps to just make very clear that we need a different solution than the one that is being proposed. Mr. Beck, in your testimony you indicated that you think that we're looking at about a $3 billion shortfall in the funding proposal for 7(a) loans. Is that correct?

Mr. BECK. Yes.

Senator CRAPO. Which will be somewhere in the neighborhood of a need of around $12.5 to $13 billion.

Mr. BECK. Absolutely.

Senator CRAPO. Do you think that that would allow us to get the maximum back up to 2 million and keep the fees where they are and proceed as we were?

Mr. BECK. I believe so. If you get a combination of the piggyback loan structure and the $2 million limit, it all helps. I'm not saying that all of those large loans are absolutely necessary. I believe only five percent of the total monies available have been in that category of between $750 and $2 million. But I think it's crucial that these larger companies get their money in order to provide more jobs. That's the bottom line. I think the more job placement with the larger companies, it filters down to the lower ones. It's the ripple effect.

I think it's very important that that $12.5 billion level be obtained; and I think we know historically, and the demands that have been placed since the beginning of the year are at that level.

Senator CRAPO. That's what our track record so far looks like.

Ms. Lawton.

Ms. LAWTON. I'd have to agree with Bob.

Senator CRAPO. Mr. Brown, did you have anything?

Mr. BROWN. Yes, I'd agree as well. That amount has proven to be about where it nets out. Having a reliable known figure to work with, the financing industry can deal with it if they just know what it's going to be.

Senator CRAPO. All right. I'm going to ask another question here that I'm not sure any of you will have the answer to. In fact, we probably have it right here. The question is the same one I asked on the microloans. Do you know whether the SBA has a high level of cost to the 7(a) program that it administers?

Mr. BECK. I wish I knew, and I've asked that question several times. I think it's been an issue that has plagued the SBA program for years. We need to know specifically what the loss ratio is. Even in this centralization of loan collections and all that have just occurred, we still don't know. That amazes me. It also amazes me that the number of files, and the way they're going to be handling these, it doesn't appear to be organized or planned; and this was announced several months ago.

Senator CRAPO. That's right.

Mr. BECK. Yet we know for a fact that the offices aren't even set up, the facility isn't set up. I mean it's in process, I understand that; but to imagine to take 14,000 customers, collection accounts, whatever you call them, and put them in boxes and ship them to a place they don't even have shelves to put them on, I'm shocked.

Senator CRAPO. Any other comments?

Ms. LAWTON. The centralization, what Bob's saying is without knowing the areas they're dealing with, how can they make prudent decisions?

Senator CRAPO. I think that's a very good point. The centralization question to me gets back again—I'm assuming that the SBA, particularly with Congress restricting its funding by 24 percent over 4 years, is facing some pretty significant downsizing pres-

sures. I understand the centralization pressure may actually have been generated by Congress.

That having been said, I'm concerned to hear the stories that you're talking about in terms of the loss of people in the field, so to speak, outside of the Washington bureaucracy and the loss of expertise and access that that is going to present to you. Again, I am assuming—and I may be wrong, but I'm assuming that this is a budget-driven issue as well and that we may need to address it in that context. Am I correct?

Mr. BECK. Yes.

Mr. BROWN. I believe so. I think that the centralization issues seems like a train that's coming down the track and that's going to happen in some form or another regardless of what we all say. Hopefully, there will be some local loan officer or local presence available that has a lending history that can be used in the case of appeals. If we send something in, an application in its abbreviated form, to a centralized approval process and it's declined for one reason or another, that there would be some kind of an appeal process to a local district office loan officer that knows the dynamics of that rural community, or that local community, that could pitch in and maybe not approve it but add the credibility to it to have a resubmission.

Senator CRAPO. If this centralization occurs the way it looks like it's heading, where will you end up having to deal with these?

Mr. BROWN. Sacramento.

Senator CRAPO. Sacramento? And today you deal with?

Mr. BROWN. Spokane.

Senator CRAPO. Spokane. All right. First of all, let me say I agree with the points that have been made here. Again, although we are fighting a very difficult budget climate back in Washington, and I'm sure I'm telling you something you already know, but with the entitlement programs basically running uncontrolled, because they are mandatory spending that we don't have the votes in Congress to adjust right now; and with the war on terror and our national security and Homeland Security driving so much spending right now, the rest of the budget outside of the entitlement programs and national and homeland security is—in the President's proposal, the rest of the budget is held to less—well, to an average of one-half of one percent increase. That doesn't mean that everybody gets one half. Some are going to get cut, some are going to get more. But the bottom line is we're working in a tight fiscal climate.

That having been said, it seems to me that it is very short-sighted, in terms of the issues we've been talking about today with the primary focus on trying to restore the strength and increase the stability and growth in our economy, that we are making some of these decisions that, particularly for rural America, are going to drive access to capital away and are going to, even in urban America, make it much more restricted and probably focus it on certain types of more collateralized business.

Mr. BROWN. Yes.

Senator CRAPO. To me, that is a mistake that is going to be much more costly than the $3 billion we were talking about as far as the investment. I wish I had the numbers and the study on this, but I'm confident that if we were able to analyze what would happen

dynamically in our economy if we make this program work the way it can, and if we can do so for another $3 billion, that we would probably generate a lot more than $3 billion of tax revenue to the Federal treasury and that this is going to pay for itself.

As I go back and try to work through both the Budget Committee and the Small Business Committee, I think the solutions you talked about here are the ones we need to implement; and I appreciate your helping to educate me in more detail as to what the problem is and what the consequences are of the proposed solution, and I'll work to see if we can't try to find a solution to fix it.

Mr. BROWN. Thank you.

Senator CRAPO. Thank you very much.

Senator CRAPO. We will excuse this panel now then and move on to our third panel. Our third panel consists of Mr. Rob Randall, the President and CEO of Randall Contracting in Kellogg, Idaho; Mr. Archie McGregor, President and CEO of Archie's IGA in St. Maries; Mr. Bruce King, the Owner of Lakewood Animal Hospital in Coeur d'Alene; and Mr. Mark Gantar, President of All Seasons Apparel in Post Falls. Please come forward. Apparently Mr. King has not arrived yet. If he gets here before we finish, we will invite him up to the panel.

I welcome all of you here and again remind you to try to keep an eye on Mike while you're making your comments, and then we'll be able to get into a good discussion. We will go in the order that we just identified you, so, Mr. Randall, please proceed.

STATEMENT OF ROB RANDALL, PRESIDENT AND CEO, RANDALL CONTRACTING, KELLOGG, IDAHO

Mr. RANDALL. Thank you. To begin with, I would like to thank the Senator——

Senator CRAPO. If you would pull that mic just a little closer to you. Thank you.

Mr. RANDALL. Is that a little better?

Senator CRAPO. Yes.

Mr. RANDALL. Okay. To begin with, I would like to thank Senator Crapo and his staff for the opportunity to present the history and success of Randall Contracting. Our accomplishments would not have been completely successful without the capital and business assistance provided by the 7(a) SBA loan program and the local lender partnership of Mountain West Bank.

Randall Contracting is an excavation company specializing in site work projects involving reclamation and utilities. Our clients are mining companies, private developers, governments that are State, local and Federal. Randall Contracting began business in February 2001 as a sole proprietorship. We had an SBA-backed loan of $100,000. At the time of our opening, we were basically two employees, a shovel, and a lot of persistence.

By the end of the first 12 months, we had managed to land three projects with a gross revenue of over $750,000. Randall Contracting became a corporation. We'd employed seven people on a seasonal basis and still two full time. During our first year, the guidance and confidence given by Bob Beck and his staff at Mountain West Bank, along with John Lynn from the Small Business Learning

Center, created an even greater desire for Randall Contracting to succeed.

By the end of our first year, we accomplished paying off our first SBA loan and established ourselves as a reputable and dependable company. Since the first day of business, I've had the attitude that a customer will always get a completed first class project on time and under budget. I also studied existing successful businesses and modeled Randall Contracting after their success.

Year two of Randall Contracting began by searching new ideas of expanding on our previous year's success. Through contacts we had established the previous year, I found a reputable company going through a downsize and eliminating their construction division. I approached the company and offered rather than eliminating these jobs and auctioning off the equipment the idea that Randall Contracting purchase the company and continue their current contracts. After a couple months of negotiations, we came to a purchase agreement.

Meanwhile, I had weekly meetings with Bob Beck at Mountain West Bank. By previously establishing the relationship with Bob Beck, another SBA loan was quickly processed. Suddenly Randall Contracting had construction offices in Idaho and Montana with 12 full-time employees and full benefits. We quickly drew on our employees' expertise and created opportunities with every contact.

I do have to add at this point I was wondering for the first few months: Can I take on the responsibility of running and creating a multi-million-dollar-a-year company given the present economic situation? I had a lot of sleepless nights and came to the conclusion that I would succeed simply because of all the families involved.

By the height of the construction season in 2002, Randall Contracting had created 58 jobs for seasonal employees and had 14 full-time positions. We finished the year with $4,800,000 in gross revenue, a growth rate of over 500 percent in 1 year. I will say that by mid-summer it felt really good to be able to know that I'd help put food on the tables of over 70 people.

We began 2003 with around $2 million in carry-over work from contracts. With carrying over our exceptional reputation of quality job performance, we were able to retain most of our seasonal workforce from the previous work year and added where needed. We purchased additional equipment and added to our fleet of 50 other pieces purchased in 2002.

At the height of the construction season in 2003, Randall Contracting had a workforce of 77 people and 31 subcontractors. Based on our past performance, we were successfully awarded several multi-year contracts and finished with another record year. In 2003, we had gross receivables over $6,400,000.

We're now starting our fourth year in business. Our current backlog of work for 2004 is $8,250,000. With this, it will complete another record year without even bidding any other projects for Randall Contracting.

The real clincher to this is that it has taken place in rural Shoshone County, in Kellogg, Idaho, one of the highest unemployment counties in the State. To date, over the last 3 years, because of the 7(a) SBA program, Randall Contracting has been able to contribute over $8,000,000 towards rebuilding the Silver Valley. We now have

had 21 employees buy homes in Shoshone County, and these are all young, hard-working people who believe in growing a building community. None of this would have been possible without the rural 7(a) SBA program.

In closing, I would like to thank you again for the opportunities presented to Randall Contracting; but most of all, the credit for our success goes to my employees and family, clients, the SBA, Mountain West Bank and Bob Beck for their confidence in Rob Randall. I'd also like to extend a sincere thanks to Senator Marti Calabretta who awarded our first large project, the Success Mine clean-up.

Senator CRAPO. Thank you very much, Mr. Randall. It's a great success story.

Mr. McGregor.

STATEMENT OF ARCHIE MCGREGOR, PRESIDENT AND CEO, ARCHIE'S IGA, ST. MARIES, IDAHO

Mr. MCGREGOR. Senator Crapo, as the Owner of a small business in a rural area of Idaho, I would like to express my appreciation to you for giving me the opportunity to testify on the questions of assessing capital and business assistance in the rural area of Idaho.

After working with a national chain store for many years, I looked for an opportunity to own my own business. The normal risk and challenges of owning your own business intrigued me. I felt that I had learned the skills to operate my own business and succeed. Finally, I took the risk by investing my own savings and secured a bank loan and purchased the first IGA store in St. Maries, Idaho.

Five years ago, after successfully operating the store, I recognized the need to modernize it and looked for value-added services to offer my customers. To achieve this plan, I qualified for an economic development loan from the area Certified Development Corporation. This was my first time to use loan programs available to small businesses. Although the paperwork seemed insurmountable, the program provided the loan I needed, and today my store has expanded my customer and employment base.

With the success of my first store and an understanding of operating a grocery facility in a rural setting, I purchased a second store in Orofino, Idaho. The successes I achieved in St. Maries are now being applied to my second store. I will be modernizing the facility, expanding services and creating more jobs.

I have found that rural businesses face challenges not imposed on urban or suburban businesses. A good example is the availability of transportation of goods. Because of our location, both of my stores are not on typical delivery routes. To get services that keeps me competitive with urban areas, I must find creative ways to keep my stores supplied with goods and fresh consumables.

This very question has been pressing my evaluation process in the past few weeks because I lost my established delivery system and therefore need to determine a new cost-effective way to supply my stores. An urban store owner would simply bid out for a new transportation supplier and usually have many choices. I have to create the solution myself.

It is my understanding that in Idaho over 80 percent of the workforce is employed by small businesses. Since most of Idaho is rural, the type of challenges that I face in the operation of my business must be a concern to most of the small businesses throughout the State. Taking this logic further, 80 percent of the workforce is directly challenged by the same concerns that face small business.

If small businesses are to remain effective, competitive and growing, we need assurance that the programs offered by the SBA are available, valuable and designed to address the needs of small businesses. For rural areas, there needs to be some consideration for the unique challenges faced by small businesses operating in those areas. They can't be compared with urban businesses.

For example, the creation of one job in a rural setting may have a significant effect on an economy, while the creation of one job in an urban setting may have little, if any, effect on the local economy. It seems that there should be some evaluation of merit when offering services to small businesses in rural areas.

I don't have all the answers for rural businesses, but rural businesses are a valuable part of the Nation's economy and they should be offered services that account for the unique circumstances that they face.

Senator Crapo, thank you for this opportunity to discuss this situation faced by rural small businesses in America.

Senator CRAPO. Thank you, Mr. McGregor.

Mr. Gantar, go ahead, please.

STATEMENT OF MARK D. GANTAR, PRESIDENT, ALL SEASONS APPAREL, INC., POST FALLS, IDAHO

Mr. GANTAR. Thank you, Senator.

Senator Crapo, as a small business owner in North Idaho, I would like to thank you for inviting me to testify before you for assessing capital.

Senator CRAPO. Can you pull that mic just a little closer?

Mr. GANTAR. Sure.

Senator CRAPO. Thanks.

Mr. GANTAR. I think I have quite an interesting story to tell you. I am the Owner of an apparel manufacturing business located in Post Falls, Idaho. We have been in business for 20 years and recently moved to Post Falls from Spokane, Washington, where we had been for those 20 years. Prior to 1984, we were owned by a company named Pacific Trail Sportswear and I was their general manager and vice president of Production for Pacific Trail, managing eight large factories in Washington and Utah.

In 1984, Pacific Trail decided that they wanted to outsource their manufacturing to a cheaper labor force in mostly Korea, and I purchased the manufacturing assets from them and started All Seasons Apparel. We began as a down outerwear manufacturer and were at one time the largest down manufacturer in the country of jackets, vests, pants, quilts—you name it.

That business was abruptly taken from us by China, both as a cheaper labor source and our ability to get down for our products because of the environmental lobby. From there, we changed into a large athletic wear manufacturer mainly for Nike. We produced their running suits, shorts, Lycra at a rate of near 500 dozen per

day employing over 300 people in the process. That work was also abruptly taken from us as Nike took all their production to China again.

Then we started in the fleece business producing fleece jackets, vests, pants, hats for mainly Union Bay at first; and then over the years with companies like Patagonia, L.L. Bean, Lands' End, REI, Helly Hansen, Columbia Sportswear and others. Recently, this business was also taken from us and is now made in Mexico and China, Vietnam, and some African countries.

In addition to these apparel items, we have been a large manufacturer of denim jeans and jean jackets for mainly Levi Strauss & Company. As you probably have read from recent press coverage, Levi is going to Mexico and parts unknown to manufacture their uniquely American items. I would like to personally congratulate Levi Strauss. They were the last to go and have held out the longest. Just last year we produced their Levi-branded jeans and jackets, and I have the highest respect for this fine company. Lee, Wrangler, The Gap and others went outside the United States long ago while Levi tried to stay, but they had no choice as I see it. These trade laws forced them all out.

To get to the point, currently it appears that we have excellent access to funds through the SBA and other State organizations to help finance our business, both in growth and in start-up situations. But we can have all the financing in the world, but if we can't access the business, it doesn't do us any good. Quite frankly, the only apparel manufacturing that is really flourishing, other than a few companies, are those that are working for the Government.

We are in the process of trying to convert to a Government contractor and have been for nearly 2½ years. We have bid on nearly 12 separate contracts and some over a year and a half old. One we are waiting on now is a HubZone set-aside and a disabled veteran preference on a pant we have done in the past. This particular bid closed on the March 28, 2003, and it still hasn't been awarded.

I am hoping and am willing to negotiate price further with the Government, but I am not optimistic, and most of the bids seem to go to the east coast from the DSEP. I was told that this bid would probably be awarded to prisons back east, Federal prisons. In any event, they had the first priority on these bids.

I am almost in a state of shock as I look down on my factory with nearly 800 machines and barely 15 people working in a plant that has traditionally had over 200 people working very hard to help support their families. I have not taken a paycheck in over a year and I'm watching my personal assets dwindle, but I will not give up.

My father once told me that we had been very foolish prior to World War II, when our industries were allowed to go to Japan and China, specifically the tool and die business; and it took us 2 years to gear up to be able to beat Hitler and the Japanese during World War II. Well, it appears that we might be doing it again.

I am a well-educated person with a degree in economics, among others. As a country, we need to keep a strong manufacturing base in steel, wood products, farming, aerospace, textiles and apparel. Manufacturing brings new money into a community as opposed to

retail and restaurants that just recycle the same money. An apparel factory is something to behold when it is full and running properly.

We historically employed all age groups, sexes, nationalities, sexual orientations, and all of us getting along to get the products to our customers on time with the best quality. Over the last couple of weeks, through the Job Service, we have gotten in the mail nearly 100 applications for power sewing machine operators, but I cannot act upon them. That one Government contract mentioned earlier would put all 100 of these applicants to work in this one factory.

Senator Crapo, I would like to respectfully submit that our elected officials need to reassess the trade agreements that have been passed, specifically NAFTA and the WTO agreements. The Congress of the United States has effectively eliminated the jobs from the very people that have elected them. I think our Senators and Congressmen have underestimated the impact of NAFTA and other trade policies and should now make the changes necessary to restart all manufacturing in this country.

I again want to thank you for giving me this time to present my story to you and I look forward to a continuing relationship with you and your fine staff.

Senator CRAPO. Thank you very much, Mr. Gantar, and I want to come back to the outsourcing and the trade issues that you have raised there; but first I want to go through these SBA issues.

We have a real range of different experiences here in the businesses. Each of you have been involved with SBA financing. My first question is: How important to you was access to SBA loan programs, and how did you find out about them? Did you find it easy to access them? You can start with anybody.

Mr. Randall.

Mr. RANDALL. I actually had found out about it through an advertisement of Mountain West Bank. The access to it with Bob Beck was relatively easy. The use of it was a little more difficult than I had anticipated. The whole process went fairly smooth, however, it took a little longer than I anticipated.

Senator CRAPO. How many SBA loans have you been involved with in your company now?

Mr. RANDALL. Two.

Senator CRAPO. Two. You gave me the statistics, but how many people are employed?

Mr. RANDALL. At this time I have 14 full employees. I have an office in Idaho and in Montana. This summer, I will have well over 100 seasonal employees that will work basically from April until weather shutdown—Thanksgiving.

Senator CRAPO. All right.

Mr. McGregor.

Mr. MCGREGOR. Yes. I was familiar with the Panhandle Area Council here in North Idaho and while visiting with them I found that I would be able to get some funds, matching funds to expand the store. The store that I purchased in St. Maries had gone bankrupt and was closed when I took it over. We were able to overcome that hurdle.

Then when we found that in order to meet the need of the resident area in the area of groceries, we had to expand the store; and that was when the real challenge came for monies to expand the store in a rural community. Had we not done that, I don't think that St. Maries would be as far forward as it is today. I feel that we somewhat set a stage to the opportunities for rural communities to develop.

Today we employ about 60 employees in that store. We still have competition in town, and we have reduced the escape factor from the community. It has been a great experience for me and I would like to thank PAC for what they did in making it possible with SBA.

Senator CRAPO. How many employees do you have?

Mr. MCGREGOR. In St. Maries, we have about 55; and in Orofino, we have about 40.

Senator CRAPO. All right. What kind of SBA loan? Do you know? Were you in the 7(a) program? Did you know what programs you were working with?

Mr. MCGREGOR. I don't remember which programs I was on. I'm sorry.

Senator CRAPO. Mr. Randall, do you know whether you were on a microloan to start with and then your second loan was a different one?

Mr. RANDALL. The second one was a 7(a) loan. I believe the first one was a 504, but I could be wrong.

Senator CRAPO. Okay. Mr. Gantar, on the SBA issues, what was your experience?

Mr. GANTAR. Well, to be honest, we would have been out of business a couple of years ago without the SBA. I was with a larger bank for many, many years. The relationship had deteriorated over the years with that bank as they kept buying and gobbling each other up.

Senator CRAPO. The consolidations?

Mr. GANTAR. Yes, and to the point where we had probably had five different loan officers over the years, eventually getting to the point where they weren't interested at all in us.

Then Jobs Plus here in Idaho referred me to Bob Beck. Things turned around for me immediately. Bob has just done a great job with me in accessing capital so I can keep going. I need capital. I need loans because I'm financing payroll. Most of the companies I deal with—like Levi Strauss or like Lands' End—want 30- or 60-day terms; and you cannot operate unless you have money to meet payroll and taxes in order to keep going. You'll drop dead. The SBA has made it so that I can exist now, and hopefully it will continue to be that way.

Senator CRAPO. All right. It's just remarkable to me the small business, side of these stories. Each confirms my belief that if we continue to have the right kind of effective small business support through the SBA that the cost to the government is virtually not there when you look at the dynamic economy.

When we score things in Washington, D.C., we're not able to score on a dynamic basis. If we put money out, even if that money is returned, with interest, we have to calculate it as a hundred percent expenditure and cost to the budget. We don't take into consid-

eration the fact that an investment is different than a consumption expenditure, and that's part of the reason we have these problems in fighting over the budget issues with the SBA programs.

That having been said, it seems to me that the stories that your businesses and your circumstances tell, with regard to the discussion that we had in the previous two panels about these programs, and the need to make sure that they are operated in the right way and not changed because of budget pressures to do things that would take them away, is proof of the fact that these investments that we are making through the small business programs are meaningful and are making a difference.

A question just came to my mind, Mr. Gantar. In your circumstance, I assume you have a significant amount of equipment, and so forth, that could be used as capital for the investments. You may not know the answer to this, but if they changed the capital requirements for the loans or the collateralization requirements for the loans to require more collateral, would that cause a difficulty in you being able to continue with SBA loans?

Mr. GANTAR. Well, you'd have to ask my banker. However, today it was brought up that the value of property in urban areas, I mean in rural areas like ours, is less than in urban areas. I think that would affect things more than anything.

Senator CRAPO. That's a good point.

Mr. GANTAR. I, of course, own my property in Post Falls; and if they reduce that, it's going to be just a—probably a trickle-down effect against me immediately, and I think that's more of an issue than my machinery. My machinery isn't worth as much to the bank as my property is because of the export of jobs. The machinery becomes less and less valuable. But the property values are still there and that's what you loan against.

Senator CRAPO. That's a good point.

Mr. Randall, in your business—I know some of these are sort of softball questions, but I really want to flesh this out. Could you have had the expansion of your business and the success story you're telling us about without the SBA loan program?

Mr. RANDALL. I don't believe it would have been possible at all. I think John Lynn and Bob Beck went out of their way to help us succeed. Both of those are strong members and proponents of the SBA program.

Senator CRAPO. Mr. McGregor, same question to you. When you faced that point where you realized you had to expand in order to be competitive—

Mr. MCGREGOR. It would have been the difference between an expansion that would have really met the total community needs or just upgrading the store so that you were operating a class store. With that loan, I was able to double the size of the store, provide services that were not being provided in the community before, and it has proven to be a successful part of our business.

Senator CRAPO. All right. Well, Mr. Gantar, let's go to the trade issues that you raised, the outsourcing issues. First of all, let me tell you that I agree with you. I'm a big believer that we need to aggressively develop trade relations with other nations in such a fashion that we have true free trade. I believe that we need to be eliminating the tariffs and other trade barriers that the United

States and other nations engage in, and ultimately moving to a free market.

I don't know how that would play out in the outsourcing issue, but I do believe that if we had harmony among our nations on issues, not just like tariffs and trade barriers but also on some of the requirements that we impose on our producers through our bureaucracy, that we would have a much more level playing field. Ultimately, I voted against NAFTA when it came up, notwithstanding the fact that there was intense pressure from many communities, not the least of which was the agriculture community, because of the belief at the time that it was going to expand markets and open up opportunities for our producers.

I felt that we didn't have the protections in place and that, as a result, we were not only yielding up our sovereignty, but that we were getting ourselves into circumstances in which we would ultimately see the loss of jobs; and now we are starting to see that.

We welcome Mr. King here and we'll let you make a statement here in just a moment, but we're in the middle of a discussion I want to continue. I feel that this issue of outsourcing is going to be an incredibly big issue in this year's election. It's a big issue before Congress today, and I'd welcome not just Mr. Gantar's comments, but the comments of any of you on this. What do you think we need to do? What policy do we need to change, and how should we address this problem at the policy level in the United States?

Mr. GANTAR. Well, that's a very complex question. You have to look at it from the point of view of labor. The elimination of tariffs and what that does to our money source. We have a supply of money. It redistributes the money then to the top companies, so that the companies make a lot more money and a few make money in these foreign countries. Labor doesn't do any good. We have not helped the people of Mexico. Obviously they're still immigrating here like crazy.

What tariffs does is it redistributes back to labor and it gives labor some leverage. What's happened in our country? Labor has no leverage. I've seen it. I've managed factories for 35 years. I remember back 30 years ago, when I was negotiating with labor, they had leverage with me because the company was making money; and I had leverage with my customers on price. Now it's gone.

Big companies like Nike and Levi, don't manufacture their own goods. They are merchandisers. They use others to manufacture for them; people like me, people in Mexico, people in Europe, wherever. Now they're able to just chase the lowest denominator. It may be a free market economy, but it's not free for small businesses in the United States. It's free for the big companies like Nike.

If I was not able to access SBA loans, right now I would probably be in China or Vietnam or someplace like that, engineering factories for Nike or Levi. I would not be employing people here in Idaho.

Now, tariffs are just a bad word with everybody it seems like except labor. Maybe we should give incentives to these companies to manufacture some portion of their goods in the United States, to a big business; some kind of an incentive, like tax breaks or something to level the playing field a little bit more, to motivate them

then to go to a company in Post Falls, Idaho to produce their jackets.

I don't have the answer and it's swung way beyond where it should have gone. I think that we need to give leverage back to labor somehow. Of course, the only way to do it is tariffs or incentives to business to produce in the United States.

Senator CRAPO. All right. I appreciate that. Any other comments from any of the others here?

Mr. Randall.

Mr. RANDALL. I just have one small comment. I know everything that we've gone through here today has been evaluated on the risk. I actually do believe that as a requirement for one of the larger SBA loans, that as a company becomes successful, they need to compete—they need to be able to work with the smaller upstart companies on a mentor/protege-type program. I think that will alleviate some of the risk for the SBA, some of the default risk for the banks, and it gives you an outlook on a successful company to help you build a small company.

I've been very fortunate in the success of my business, and I would think that it would only be appropriate for me to help mentor some of the smaller companies that are trying to start up. I think that should be a requirement of that program. It creates a win-win situation for everybody involved with virtually no cost either to the government, to the bank or even to the mentor.

Senator CRAPO. All right. Thank you. That's a good suggestion. Mr. McGregor, anything else?

Mr. MCGREGOR. No.

Senator CRAPO. Well, Mr. King, we appreciate—King, right?

Mr. KING. Yes.

Senator CRAPO. We appreciate you making it here, and you were not here for my previous instructions. I've instructed everybody to keep their comments to 5 minutes. We do welcome you here and would love to hear your input, and we've got a little time clock keeper here to help you keep an eye on the clock.

STATEMENT OF BRUCE KING, OWNER, LAKEWOOD ANIMAL HOSPITAL, COEUR D'ALENE, IDAHO

Mr. KING. Well, thank you. I'm sorry.

Senator CRAPO. You have to pull that kind of close.

Mr. KING. Can you hear me better now?

Senator CRAPO. Yes.

Mr. KING. Sorry for the delay this morning.

Senator CRAPO. That's all right.

Mr. KING. Thank you for looking for input on small business funding. I'm a recent small business loan borrower, and I hope that telling you briefly just my story may give your Committee just some good information. My name is Bruce King. I am a private practice Veterinarian and I recently constructed a 6,500-square-foot small animal veterinary hospital in Coeur d'Alene. The hospital employs five full-time staff members. The staff members earn an average of $8.50 an hour and receive comprehensive health and dental insurance coverage after an initial evaluation period. Provided that my hospital meets the projections that I have for it, within 3 years I should have 15 full-time staff members employed.

Besides providing a valuable service to the community that's needed, it created a lot of good jobs having this hospital built; and without the SBA loan programs in existence, I would not have been able to do it.

I graduated from the Washington State University College of Vet Med in 1995. I was originally from Coeur d'Alene, so I'm a native person here. I did what was most common of new graduates, and that is I went out and I got a job working for another existing practice to get experience. After 3 years of working there and getting experience, I felt that I was ready for me to go out on my own; and with a partner, I went and purchased a foreclosed building in Post Falls, just nearby here. It had previously been a restaurant and had been on the market for a long time. We were able to get a good deal on purchasing the building.

Due to my business partner's good relationship with the bank around here, it was very easy to get a loan. We pretty much got 100-percent financing, got a conventional-type loan with a fixed interest rate, very favorable terms; and so things were very easy on that first go-around and the hospital did very well. After 4 years of ownership, I sold it to my partner. That was last fall.

Then at that time I had about $275,000 in cash, 8 years of experience of being a Veterinarian, good credit, and I had the experience of starting up a new business. I thought when I was going to turn around and go and do the same thing again, I would find it very easy to obtain a loan like I had before. I went and did my business plan and took it to the banks around here. There was quite a bit of interest, everyone was interested in loaning on it; but I was in a real Catch 22 position because I did not have a 2-year set of financials to give them to get a conventional loan for the business that I was proposing to start.

I did fit within the SBA loan guidelines, though. Initially I was pretty hesitant to go with the SBA just mainly because, in my mind, it had the reputation of being just a costly kind of slow, burdensome, paperwork-filled type of a process. I went and investigated getting financing with some of the veterinary-specific lenders that they advertise in the back of vet magazines. They either were unwilling to lend for a large construction project, or they would gladly lend you the money but then they would charge you tons of high fees and they'd give you a really short balloon payment, like 5 years, to pay the loan off; and just totally unacceptable.

Due to a lack of other good options then, I went ahead with the SBA, and I have been very pleasantly surprised with the experience. It did take a little bit longer to do an SBA loan than my previous conventional loan experience, but I didn't consider it to be excessive. I went to three lenders in this area. I felt comfortable with all of them. I chose to go with Mountain West Bank mainly because Bob Beck was very familiar with the CAPE program and getting my fees paid for for the loan. That ended up saving me about $20,000 in the process. I've had good experience with it and I would recommend it to any other small business.

In the process of doing my business plan for this last hospital and the one I currently have, I did also use the services of the Idaho Small Business Development Center. John Lynn helped me

do all my spreadsheets, gave me a lot of really good advice on doing my business plan. If I start another business, I'm going to use that again as well.

The only regret I have in the whole project is I did end up with a variable rate loan. I really would have liked to have gotten a fixed rate just for kind of security in the future, and I would have been even willing to pay some fees or points to get it, but it didn't turn out to be available in my situation.

I've heard that the CAPE program is not going to be available necessarily to future borrowers, and that would be one thing I would encourage if there's a way to do it; either to continue funding for that or just to reduce the loan fees in general, because that made a big difference for me. In my case, the money that Bob saved me went to pay for the dirt to build the lot on my land. It was about the same amount of cost.

In general, I think that the thing that could be done to really help small business out and just improve conditions for everyone is to encourage through some mechanism some significant financial reward for if a business is going to give good wages and offer good medical insurance, not just really skimpy where the employer pays just a portion but if you pay all of it, there should be some way they're rewarded back for it because ultimately I think everyone will benefit.

Thank you for taking the time to listen to me and again I apologize for being a little behind.

Senator CRAPO. No trouble. Let me just ask you quickly—as I've asked the others here. In your circumstance then, without the SBA loan programs, you would not have been able to get financing?

Mr. KING. Well, I would have had to do a smaller project; and at the stage of practice that I am in right now, I didn't want to go backward. I could have put a hospital in a strip mall and had no equipment and I would have been able to get financing. But to build the type of facility and do the quality work that I needed to, the only place that would give me a loan to do it was the SBA. There wouldn't be five people employed right now; there might only be two. There's no bazillion people that have spent the last 7 months working on my building, none of those people would have been employed either, creating it.

So, yes, I could have had something, but it wouldn't have been nearly what I ended up with.

Senator CRAPO. All right. Well, thank you. That concludes the questions that I have for this panel. Unless any of you want to make another comment, anything you haven't had a chance to bring forward, we will conclude this panel.

All right. Thank you all very much for your time today. That also concludes the panels for this hearing.

I have found the information that has been presented today to be very helpful. As I said at the outset, one of the problems that we see is that as we—as the economy is now starting to grow back, we know that the engine of jobs in this country is small business but we don't yet see the job growth following this economic recovery. That is not unusual, and so we're not, on a global scale, yet seeing a high degree of alarm because of that; but we want to be

sure that the job growth does follow the economic recovery that appears to be stabilizing for our country.

In that context, as I've indicated, I sit on the Budget Committee as well as on the Small Business Committee; and representing a state like Idaho, rural small business development and economic development in general becomes a very significant issue, not only for the Nation but for a state like Idaho; and that's one of the reasons I wanted to be sure that this kind of information got in the record for the Small Business Committee as we deliberate on how to work with the SBA on its budget and on its program implementation.

I'm pleased that a number of other issues have been raised here, such as the broader question of outsourcing that Mr. Gantar raised, the question of the infrastructure for rural communities which was raised in one of the earlier panels, and a number of the other issues that relate to the broader issue of what needs to be in place for economic development in rural communities.

One of the things that I'm committed to doing is to identify what we need to do in our rural communities and those areas where our Federal Government can properly play a role. Then make certain we are playing the role and filling the needs there as effectively as possible. It does seem to me that we start with the infrastructure to make certain that we have everything in place, from roads and bridges to broadband access to good health care to good education and the like, and I put all that in the infrastructure category in my own mind.

Then we work on development of adequate access to capital and the kinds of collaboration that need to take place between the various providers of access to capital and support for development of small business. If we can do so effectively, then we'll have a number of success stories like those that we've just heard from those here and we can start seeing that growth back in our rural communities.

Again, this has been very helpful to me. I've got myself a good checklist of things that need to be accomplished, and I think the direction that we need to take has been clearly identified by this panel. I know this is going to be very helpful to Senator Snowe and other members of the Committee as we further deliberate in Washington, D.C. I appreciate everyone here who has come to participate; and those of you who came to listen. I hope it has been beneficial for you as well. Without anything further, this hearing will be adjourned. Thank you.

[Whereupon, at 10:53 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
Hearing:
"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

ROBERT M. BECK
VICE PRESIDENT
MANAGER SMALL BUSINESS LENDING
MOUNTAIN WEST BANK

Thank you, Senator Crapo, for giving us the opportunity to meet with you today regarding access to capital for small businesses as well as business assistance programs. These loan programs have provided capital to many small businesses and have been the vehicles providing banks, like us, the opportunity to make loans that make dreams become reality for America's entrepreneurs. We are very concerned that these SBA loan programs are in jeopardy, potentially eliminating that access to capital for small businesses, especially in rural America. We must strive to get the U.S. Small Business Administration back on track in providing good access to funds for small businesses, implementing the basics of why the Agency was created in 1953.

I would like to introduce myself as a representative of a small community bank that has dedicated itself to helping small businesses get started and grow. Mountain West Bank committed to the SBA loan program in October 1995 and I was hired in July 1996, when a department was established solely for SBA lending. In that year we ended the government's fiscal year with 5 loans totaling $1,486,000. All five companies are in business today and are still providing in excess of 50 jobs in our rural economy. In fiscal year 2003, Mountain West Bank was very active in Idaho, Montana and Eastern Washington, providing almost 100 (67 in Northern Idaho) new SBA loans in Idaho representing approximately 500 new and retained jobs. During the past two years we have been the highest volume lender in the Spokane District Office as well as the State of Idaho and are currently servicing 348 loans. Our commitment doesn't stop with making the loan but also the entire business relationship, including counseling, planning, and monitoring the growth of the small business.

Our mix of loans ranges from $5,000 SBA Express loans to $1.5 million loans. With this spread it is clear we have made smaller loans that most banks don't like and large loans that require the SBA guarantee due to "in the box" bank loan policies regarding collateral, loan to value ratios, credit scoring, and ownership experience. Bank auditors, regulator oversight, and the lack of historical financials are just a few more reasons that make SBA lending a necessity. The success of any loan program revolves around providing good service, fair and reasonable terms, reliability, consistency, and the willingness to take an acceptable risk. The SBA loan program has enabled lending partners to provide those elements to small businesses and make loans a reality that would otherwise be impossible for a small community bank.

Currently there are several areas of interest within the SBA that are changing. These include

1) program funding issues,
2) centralization,
3) the restructure of rules, procedures and policies,
4) SBA support of business assistance programs.

These changes could take away terms that are fair and reasonable and implement rules that are difficult to understand both for the bank and the small business owner.

FUNDING ISSUES

Regarding funding issues, the SBA is beginning to get a reputation of "on again, off again". A good example is that SBA regulations have authorized loans in the 7(a) program up to $2 million but in the last two years caps of $500,000 and $750,000 have been temporarily implemented. During these "caps" many requests were either turned away or the small businesses were forced to have unanticipated burdens placed on their operations.

It appears the SBA isn't asking for the proper funding amount from Congress. The lending partners, NAGGL and other lobbying groups have provided very good testimony and estimates that prove the "funding crisis" can be avoided. If the SBA would form a dialog with their lending partners, they would discover that the current $9.5 billion budget for fiscal 2004 will be at least $2 billion short and the proposed budget change to $12.5 billon needs to become part of the appropriations immediately. These SBA lending programs are proposed to be adequately funded, (per the SBA news release dated 2/10/04) but I am quite concerned that the SBA is not committed to future years as well. We as lending partners must be able to rely on the program. Action must be taken immediately to be effective.

The SBA suggests using the alternative 504 loan program instead of the flagship 7(a) loan program. Yet the SBA has always supported longer terms for borrowers and now they seem to contradict themselves. The 504 maximum term is 20 years, whereas the 7(a) allows 25 years on loans secured by real estate. The 504 loan program also restricts the use of proceeds which may not meet the borrower's true needs, such as working capital, debt refinance, or expansion of existing property or fixed assets.

Larger loans are also crucial to economic growth, job creation and the survival of the SBA. The SBA has tried to justify the lower funding levels by sighting a higher volume of loans. The problem is that the smaller loans are not creating employment opportunities. In reality, how many new jobs are created with a $50,000 loan? Large loans typically mean larger companies that will support more employment, not only within the company itself, but also their supporting smaller companies. Making larger loans is also crucial to the success of the SBA itself. Larger loans produce higher fees (up to 3.5%) collected for the SBA as opposed to collecting a fee of 1% on smaller loans. Larger loans are also typically secured much better than smaller loans and will generate better recoveries if a default occurs.

The agency must be willing to consider the advice from NAGGL and other lending partners and request proper funding that will make a difference in the continued economic growth of the country.

CENTRALIZATION

Recently, we have been made aware that the SBA is planning centralization and replacing 138 district loan officers with 36 "centralized" loan decision makers. Is centralization really the answer to running the agency in a more efficient manner? As lenders will testify, the district offices are typically used for more complicated credits, per regulation policy, and loans requiring specific expertise. If 36 loan officers are expected to make all decisions on loans, their effectiveness will be undermined by the sheer volume of activity produced throughout the United States. I agree with Administrator Hector Barretto that the agency needs to be run more like a business, but is that accomplished through centralization or monitored delegation?

RULES, PROCEDURES AND POLICIES

Most SBA participating lenders have implemented controls to follow the rules and regulations that SBA has set forth. In the past the SBA has provided training and a time frame when the rules or procedures would be implemented, allowing the lenders to be prepared. Under present policy, the SBA is to give Congress a written 15 day notice of changes. Recently this policy has been circumvented or ignored entirely. For example, when they began to notify the Small Business Finance committees of their intent to impose a $750,000 loan cap, they never mentioned that they were also planning to shut down the entire 7(a) lending program. In addition to shutting down the program they instructed SBA personnel to "return and destroy" pending loan applications and quit processing centralized loan approvals. This action was taken without notice and we as lending partners were left to "solve our own problems". How do you explain to an SBA qualified borrower that they must undo career changes and revisit life changing decisions because our government made changes without notifying us and without proper approval? Hector Barrett, at the annual NAGGL conference, stated the SBA program will not be shut down and the $9.5 billon would be sufficient to meet the needs of the small business lending community. This only 2 months prior to shutdown. I am very concerned that a handful of SBA personnel in Washington D.C. are being allowed to make decisions that will further affect the reputation of the U.S. Small Business Administration.

SBA SUPPORT OF BUSINESS ASSISTANCE PROGRAMS

The SBA participates in other areas other than funding that are crucial to the success and growth of small businesses. These include, but are not limited to, SCORE, the Small Business Development Companies, and the various Business Information Centers located throughout the United States. SBA personnel also provide assistance to HUB Zone qualified companies, some export assistance, and loan officer presentations for small business owners at local offices. The need for service is crucial in proven markets, where

job creation makes a difference. Servicing is the backbone to any successful loan program. Even though our bank participates in the PLP program, we constantly rely on the District office to provide guidance and answer questions. In addition the office is able to provide one on one contact with the lenders on procedure and processing. We are desperate to preserve our SBA office in Spokane Washington based on the number of loans and the number of jobs that have been created in this proven area. Real live people that are dedicated to good customer service is what the SBA should be about.

In light of the impending closure of the Spokane District office, it is interesting to note that on January 21, 2004, the SBA announced the opening of two new offices in Alaska. How can an SBA office expansion be justified when there is discussion of closing an office that serves a region identified as needing the SBA for its very economic growth?

The SBA needs to provide the services it originally promised to the American small business community as well as lending partners. Consistency and integrity is a must. We need to immediately re-establish what the SBA loan guarantee program is all about, particularly by providing capital to small businesses that would otherwise not be able to get funding and business assistance without the SBA's participation.

There are several success stories that make us proud to have become part of the SBA loan guarantee program. Three of the companies to whom we have provided loans, will testify to their success and all will agree that without the SBA guarantee program these loans probably would not been made. These companies alone account for over 110 jobs that are crucial to this economy. Randall Contracting, Lakewood Animal Hospital and All Seasons Apparel are companies located in high unemployment districts and their commitments to hire local people are qualities that are worth bragging about. They are only three companies that have submitted testimonies to show their appreciation to the SBA loan program. They see the SBA as giving them the opportunity to establish themselves as successful businesses and in doing so have also provided jobs to families that otherwise may have been forced to leave North Idaho.

I would also like to thank you, Senator Crapo, for taking time in your busy schedule to read our testimonies and I want to sincerely thank members of the Committee on Small Business & Entrepreneurship for taking immediate action in addressing the shut down of the 7(a) program and the $750,000 loan cap. Certainly, the U.S. Small Business Administration is a very important element contributing to our economic growth and I am confident the committee will continue their efforts in bringing about solutions to these issues.

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
Hearing:
"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

MICHAEL BROWN
REGIONAL BUSINESS DEVELOPMENT OFFICER
BORREGO SPRINGS BANK
FEBRUARY 16, 2004

Senator Crapo:

Thank you for focusing today's hearing on the access to capital and assistance for small business. I consider testifying before you a great opportunity to help further the interest of small business and an honor.

I am involved in small business finance and have been for over twenty-five years. I have worked many years in conventional bank lending, economic development finance as a loan fund manager and have focused on SBA lending as a regional loan officer. I also served as a Small Business Development Center (SBDC) councilor while in Central Washington for several years while managing the economic development EDA revolving loan fund in that region. This extensive and diversified history has provided me with the opportunity to work very closely with new and emerging businesses as well as larger entities in the process of expanding.

The focus of my involvement in commercial finance has been with the U.S. Small Business Administration loan programs since 1982. I have seen the evolution of the lending programs and witnessed the benefit to small businesses and communities throughout the Northwest.

The assistance provided to small business across the United States by the U.S. Small Business Administration provides immeasurable benefit. The SBA 7(a) loan guaranty program, the SBA 504 fixed-asset financing program, the SBDC network as well as the disaster relief loans and many other programs and services help the businesses and add significant strength to the overall economy. Among the benefits to our economy are job creation, direct and indirect tax base increases, capital investment, indirect job creation and retention and a host of other positive results.

The SBA / SBDC small business counseling program provides extensive and comprehensive assistance to small businesses that is not otherwise available. The SBDC assistance with business-plan preparation, startup counseling, crisis management consulting is of great value to the new small business network by a unique partnership with colleges and universities.

The SBA/504 loan program has evolved into a great fixed-asset financing program to provide financing for small business with terms that match the economic-life expectancy of the assets being financed at attractive interest rates. The high loan-to-cost ratio and long terms offered minimize debt service requirements and allow the businesses to utilize more of their capital for operating needs.

The SBA/504 loan program has become a relatively difficult mode of finance due to the complex matrix of parties involved and the lengthy processing time frames. My suggestion for

improvement within this program would be to whatever possible to simplify the process and reduce the documentation requirements. The time required to process a 504 loan varies significantly depending upon which Certified Development Company is involved and speed is vitally important to borrowers and participating lenders. I recommend that a program be implemented to increase the minimum processing time of the slower organizations and establish continuity among CDC's.

The SBA 7(a) program provides access to many businesses that would otherwise not have the opportunity to obtain loans for nearly any business use. The 7(a) loan guaranty program has been streamlined and its usefulness is demonstrated by the continued increases in funding over the years.

The SBA 7(a) program has little room for improvement with the exception of reversing the recently imposed $750,000.00 ceiling and a prohibition against "piggyback" conventional loans. Many projects involve a combination of fixed asset and non-fixed asset financing and the $750,000.00 limitation has hobbled the small business financing industry as well as small businesses themselves. One of the keys to assisting small businesses with long-term financing has been the flexibility and quick response time offered by the 7(a) program and the loan-limit is causing great difficulty in structuring a loan program that will assist many businesses. I encourage the U.S. Small Business Administration to restore lender's ability to create a financing structure with a "piggyback" arrangement even if the loan limit cannot be raised until the next federal fiscal year.

The probability of centralizing the loan underwriting for the SBA 7(a) and 504 loan programs will weaken the local input into credit decisions. The loan officers in the district offices are familiar with the local economic and business dynamics and they do an excellent job of protecting the SBA loan programs. If centralization is inevitable, I suggest that each SBA district office retain at least one loan officer on staff to handle the "special case" credits that only their individual expertise and experience can provide.

Thank you Senator Crapo for allowing me the opportunity to present my perspective on this very important issue. I appreciate your initiative and leadership on these issues that so heavily impact small business.

United States Senate Committee on Small Business & Entrepreneurship

Field Hearing:
"Accessing Capital and Business Assistance:
Are Current Programs Meeting the Needs of Rural Small Business"

February 16, 2004

Jim Deffenbaugh
Executive Director
Panhandle Area Council, Inc.

Senator Crapo, as the Executive Director of Panhandle Area Council I would like to express my appreciation to you for giving me the opportunity to testify on the question of rural small business needs and whether the current programs are meeting those needs.

I believe my perspective on this subject is unique since I have functioned during career as both an administrator of small business services and an operator of a small business that used those services. In both roles I have watched the programs evolve and recognize that through efforts like this hearing the programs are improved by involving practitioners and end users in a review process.

Rural businesses face challenges simply not imposed on urban or suburban businesses. Many times the cost or availably of transportation is an impediment to many businesses and this is only one of many challenges a rural business faces; however when a rural business seeks capital or operating financing they are "credit scored" against a standard established primarily by urban businesses. The financing standards therefore compound the challenges faced by rural businesses.

A recent move by the Small Business Administration to eliminate the "community" aspect to 504 lending may cause the reduction of this program availability to rural businesses. The new ruling simply has removed the requirement of local credit involvement and in fact encourages large multi-state Certified Developments Companies without any local interest to dominate the 504 markets. These multi-state Certified Development Companies will have to concentrate on the urbanized areas for efficiency and the greater availability of "deals". The result may be that the rural areas will be ignored or can't competitively credit score against urban deals.

The Small Business Administration has the responsibility to operate their programs efficiently as possible and with the idea of only having to deal with a few Certified Development Companies is an appealing prospect. However the potential loss of service to rural communities can have a significant impact on the viability of rural small businesses.

SBA may be testing a new program in the future and Senator Crapo, we appreciated your help in seeing that the Small Business Intermediary Lending Pilot was included in the SBA Reauthorization bill (S. 1375).

This pilot authorizes the SBA to make 1 percent, 20-year loans of up to $1 million on a competitive basis to up to 20 non-profit lending intermediaries around the country. The funds loaned to the local intermediary would in turn be used to capitalize a revolving loan fund through which the intermediary would make loans of between $35,000 and $200,000 to small businesses. Unlike the SBA Microloan Program there would be no technical assistance grant provided to the intermediary and all administrative costs or technical support provided to business borrowers would be covered by the interest rate spread between the lending intermediary's 1 percent loan from the SBA and the loans made to the business borrowers.

The Small Business Intermediary Lending Pilot Program addresses a capital gap that we see in our lending by filling a niche not currently served by the SBA microloan, 7(a) guarantee, "Express" and/or 504 programs in terms of underwriting criteria. The pilot would enable community based lenders like the Panhandle Area Council to provide loans of between $35,000-200,000 that would be more flexible in terms of collateral and general underwriting requirements (e.g. 7(a) and SBA 504) and/or size limitations (micro). Subordinated loans to starting or expanding businesses play a vital role in spurring economic development in Idaho as they do in other states, both in rural and urban communities.

The pilot is not included in the House bill and we are hopeful that it will be included in the final SBA reauthorization bill.

Thank you for the opportunity to speak on these issues.

United States Senate Committee on Small Business & Entrepreneurship

Field Hearing:
"Accessing Capital and Business Assistance:
Are Current Programs Meeting the Needs of Rural Small Business"

February 16, 2004

Paul L. Ferguson
Commercial Loan Officer
Panhandle Area Council, Inc.

Senator Crapo, I am a supervisor and lender with Panhandle Area Council, Inc. (PAC). PAC is a non-profit economic development company located at Hayden in the Idaho Panhandle. In addition to my five years here at PAC, I was a banker for 23 years. I was a commercial lender and Branch Manager. I appreciate you allowing my input at this hearing on small business programs.

PAC provides a business incubator for small manufacturers, technical assistance for business owners, and lending programs from $1,000 to $1.3 million. One of our goals is to provide or retain a new job for every $35,000 that we lend a business.

PAC provides loans through the SBA Micro program for projects under $35 k. Banks are often unwilling to do such small loans with their modest return. Annually we have nearly 300 inquiries involving the micro loans. We provide assistance with business plans, review projections, and make suggestions regarding the appropriate loan product. If it involves SBA 7(a) or other bank loans we coach them about how to prepare the package and make their presentation.

PAC projects over $35k must involve a lending partner. The bank loans 50% of the amount and we allow them a first lien position. The bank is then more willing to participate in projects with specialized collateral, smaller equity, or short business history. Often these projects do not qualify for SBA 7(a) lending.

The SBA 7(a) loan program is a huge asset for North Idaho. We have many smaller "community banks" that cannot afford risk and also need to have the ability to sell loans to provide capital for new borrowers. The 7(a) program also allows restructure and consolidation, requests that are not allowed in our PAC programs.

There has been a trend in the last few years to emphasize the populated urban areas. The Spokane District Office was made a branch of Seattle and many of the portfolio and lending personnel are being transferred or eliminated.

SBA is changing the character of Certified Development Companies (CDCs) who originate and service SBA 504 loans. The CDC's were established with a given geographic area and a local Board of Directors and Loan Committee to address local needs. Recent changes allow CDCs to cover their entire state and also allow large CDCs to cross state lines. These changes do not require local boards etc. We feel this change will enable the large out of state CDCs to "cream" and only lend to large risk-free projects.

It is hard for Rural CDCs to meet production goals with their limited resources. Many more rural CDCs will disappear. These smaller CDCs also rely on servicing income from the large 504 loans to fund staff that also administers the smaller Micro and USDA loans.

Competition for USDA Rural Development Loan pool money is also difficult for smaller economic development groups. Performance points used to be adequate to obtain funds, but the scoring system now requires substantial matching money to achieve the necessary points to win a bid. The smaller lenders do not have the ability to provide the larger matching money necessary.

While the proposed budget says it will provide more funding for the 7(a) program the Micro loan program is being eliminated. Is this really at net gain for the prospective borrower? The Administration says the Micro program can be replaced by use of the SBA Community Express. PAC has made 67 Micro loans for a total of nearly $667k, or an average loan size of approximately $10k. I do know any bank that will do a 7(a) loan with all its paper work for a $10k loan. The Community Express program does not pay for technical assistance. However, the SBA web site states that they recognize this as crucial to success of the business. Borrowers must receive pre- and post closing technical assistance from local non-profit providers and/or lenders and paid for by Community Express lenders. How are non-profits going to carry this cost burden and are banks willing to do this for such modest sized loans?

PAC is a small economic development corporation, but we have had an impact on the local economy with the following results in just the loan programs: SBA 504 $12.7 million lent on 47 projects creating 576 jobs, USDA RD $1.4 million on 13 projects creating 113 jobs, EDA RLF $6.2 million on 68 projects creating 1,303 jobs, and the SBA Micro program with $667k lent on 67 projects creating 83 jobs. America needs local decisions and entities like PAC with its lending partners.

Thank you again for your genuine concern and willingness to hear our story.

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENURSHIP
Hearing:
"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

Mark D. Gantar
President
All Season's Apparel Inc.
February 16, 2004

Senator Crapo, as a small business owner in North Idaho, I would like to thank you for inviting me to testify before you on accessing capital and business assistance from the State of Idaho and Federal Government. I have quite an interesting story to tell. We are a Hub-Zone certified business and the Company is owned by a disabled war veteran, myself. I was a young infantry 2nd Lieutenant in 1969 with the 101st Airborne Division at LZ Sally, South Viet Nam.

I am the owner of an apparel manufacturing business located in Post Falls, Idaho. I have been in business for 20 years and recently moved to Post Falls from Spokane, Washington, where we had been for those 20 years. The reason for the move was to save costs and I was able to buy an existing 27,000 square foot building in Post Falls.

Prior to 1984, we were owned by Pacific Trail Sportswear and I was the general manager and VP of production for Pacific Trail, managing eight (8) large factories in Washington and Utah. In 1984, Pacific Trail decided that they wanted to outsource their manufacturing to a cheaper labor source in mostly Korea and I purchased the manufacturing assets from them and started All Season's Apparel, which I had two (2) factories, one in Spokane and one in Wenatchee, Washington. I had a sense of loyalty to my employees than and do today and could have just went with Pacific Trail.

We began as a down outerwear manufacturer and was at one time the largest down manufacturer in the country of jackets, vests, pants, quilts etc. That business was abruptly taken from us by China, both as cheaper labor and our inability to get down for our products because of the enviromentalist lobby.

From there we changed into a large athletic wear manufacturer mainly for Nike. We produced their running suits, shorts, lycra at a rate of near 500 dozen per day employing over 300 people in the process. That work was also abruptly taken from us as Nike took all their production to China.

Than we started in the fleece business producing fleece jackets, vests, pants, hats etc. for mainly Union Bay at first and than over the years with Patagonia, LL Bean, LandsEnd, REI, Helly Hansen, Columbia Sportswear and others. Recently, this business was also taken from us and is now made in Mexico, China, Viet Nam and some African countries. In fact, the biggest fleece apparel manufacturing company

in the West recently went out of business, located in Seattle, Washington, the owner told me he just couldn't compete anymore. What had happened to him was that the Chinese manufactured the fabric (copied it from Malden Mills), shipped it to Israel where it was cut and the cut goods were sent to Jordan where they were assembled and shipped to the U.S. duty free. He at one time in Seattle had three (3) factories working and employing over 400 people not to mention the contract work he sent to myself and others. This was maybe one year ago he was this strong.

In addition to these apparel items, we have been a large manufacturer of denim jeans and jean jackets for mainly Levi Strauss and Company. As you probably have read from recent press coverage, Levi is going to Mexico and parts unknown to manufacture their uniquely American items. I would like to personally congratulate Levi Strauss, they were the last to go and have held out the longest. Just last year we produced their Levi branded jeans and jackets and I have the highest respect for this fine company. Lee, Wrangler, the Gap and others went outside the U.S. long ago while Levi tried to stay. But they had no choice as I see it, these trade laws forced them all out.

To get to the point, it appears that we have excellent access to funds through the SBA and other state organizations to help finance our businesses both in growth and in start up situation. <u>But we can have all the financing in the world but if we can't access the business it just doesn't do any good.</u>

Quite frankly, the only apparel manufacturing that is really flourishing, other than a few, are those that are working for the Government. We are in the process of trying to convert to a Government contractor and have been for nearly 2 ½ years. We have bid on near 12 separate contracts some over 1 ½ years old. One we are waiting on now is a Hub-Zone set aside and disabled veteran preference on a pant we have manufactured before. This particular bid (Solicitation # SPO100-03-R-0008) closed on 28 March 2003 and still hasn't been awarded. I am hoping and am willing to negotiate price further with the Government but I am not optimistic and most of the bids seam to go to the East Coast from the DSCP. I was told that this bid would probably be awarded to the prisons back East, in any event, they had first priority.

I am almost in a state of shock as I look down on my factory with nearly 800 machines and barely 15 people working in a plant that has traditionally had over 200 people working very hard to help support their families. I have not taken a pay check in over one year and am watching my personal assets dwindle. But I will not give up, I will go down with my ship as a matter of speaking. I know what my father meant by this comment now, he was a career Naval officer who recently passed away. He was the first skipper of the USS Sacramento AOE-1 built in Bremerton, Washington, and the Commandant of the Great Lakes Navel Training Center among his commands. I had the greatest respect and admiration for my father and heard from others later of his bravery aboard ship during WWII. He told me once that our country had been very foolish prior to WWII when our industries were

allowed to go to Japan and China, specifically, the tool and die business, and it took us over 2 years to gear up to be able to defeat Hitler and the Japanese during WWII. Well it appears we are doing it again.

I am a well educated person with one of my degrees in Economics. As a country, we need to keep a strong manufacturing base in steel, wood products, farming, aerospace, textiles and apparel. An apparel factory does pay probably lower wages than some others but remember there are engineering jobs, mechanics, supervisors, plant managers, buyers, accountants and shippers in the factory that are paid well. In addition, there are the support industries for the apparel factory such as the fabric suppliers, elastic, thread, janitorial, computer, boxes, paper products to name a few that support the factory. Manufacturing brings new money into a community as opposed to retail and restaurants that just recycle the same money.

An apparel factory is something to behold when it is full and running properly. We have historically employed all age groups, sexes, nationalities and sexual orientation, and all of us getting along trying to get the products to our customers on time with the best quality. We have had four or five different languages at once that the supervisors have had to deal with, dealing with it gladly. We currently have a medical insurance plan and a 401k saving plan that the Company matches 25%. You cannot tell me that these are not good jobs and that people don't want them. Over the last couple of weeks thru the Jobs Service, we have gotten in the mail nearly 100 applications for power sewing machine operators, but I can't act upon them. That one Government contract mentioned earlier would put all 100 of those applicants to work in this one factory.

Senator Crapo, I would like to respectively submit that our elected officials need to reassess the trade agreements that have been passed, specifically NAFTA and the WTO agreements. The Congress of the United States has effectively eliminated the jobs from the very people that have elected them. I think our Senators and Congressmen have underestimated the impact of NAFTA and other trade policies and should now make the changes necessary to restart all manufacturing in this country. I served my country well during it's time of need and should be able pursue my dreams and goals in the profession I am trained.

I again want to thank you for giving me this time to present my story to you and look forward to a continuing relationship with you and your fine staff.

Sincerely,

Mark D. Gantar
President

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
Hearing:
"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

DOUGLAS L. KINDRED
ASSISTANT DISTRICT DIRECTOR, SPOKANE DISTRICT
SCORE
(Service Corps of Retired Executives Association)
FEBRUARY 16, 2004

Senator Crapo, as a SCORE volunteer and retired small business owner whose career included serving as a CFO and CEO for a subsidiary of a Fortune 500 company, I want to thank you for focusing today's hearing on accessing capital and business assistance for small businesses. I consider testifying before you a unique opportunity and an American privilege. I will restrict my comments to SCORE and the assistance provided small businesses in North Idaho.

SCORE is a national, nonprofit, charitable organization composed of approximately 10,500 volunteer business mentors, both working and retired, who counsel businesses through 389 chapters and more than 800 branches or service points throughout the country. SCORE provides professional guidance and information to America's small businesses in order to strengthen the local and national economy.

SCORE is celebrating 40 years of volunteer service in 2004. In the past 10 years, SCORE's appropriation from the Congress has increased from $3.08 million to $5.0 million. SCORE has put these funds to use efficiently and the result is broader geographic coverage through the opening of new chapters and branches, a successful Web presence at www.score.org, the addition of SCORE's email counseling capability, as well as improved quality and better administration of the program as a whole.

SCORE is a line item in the SBA budget and is requesting a funding level of $7.0 million for fiscal year 2005. Additional funds will be used for the enhancement of email counseling capability, additional support for local chapters, and enhanced marketing and public relations. These programs directly benefit our counseling activities in North Idaho.

I am a member of the Spokane chapter. The Spokane chapter, with approximately 50 members, serves 10 counties of Eastern Washington and 10 counties of Northern Idaho. We are co-located at the Spokane Area Business Information Center, a joint venture of the Spokane Area Chamber of Commerce, SBA Branch Office and SCORE. During fiscal year 2003 the Spokane chapter conducted 1100 counseling sessions including 282 email sessions and hosted 46 training workshops for 341 clients.

We are committed to do two things well:

(a) Quality, confidential, no-cost face-to-face or email counseling to all who seek our assistance.
(b) Low-cost business training workshops on various skills.

I live in North Idaho and have been a SCORE volunteer for 9 years. I have served as Spokane Chapter Chair, District Director and currently serve as Assistant District Director.

There are currently seven of us with an estimated 38 years of counseling experience who live and counsel in North Idaho. Our range of skills include business planning; financial analysis; retail and services; marketing; data processing system analysis, design and management; construction; research and development; government procurement; and management consulting. Four of us were small business owners and one currently serves as Chairman of the Board of a North Idaho based independent bank.

We can call on the more than 35 counselors in Spokane whose added expertise includes marketing, manufacturing, importing and exporting, accounting, law, insurance, human resources, and restaurant management. The Business Information Center provides weekly SCORE training workshops, a comprehensive business library of over 1,000 books including 300 books on specific types of businesses, videos and software programs focused on entrepreneurship, and free loan briefings. North Idaho clients are encouraged to utilize the resources of the Business Information Center. Our clients can also access the more than 1,000 SCORE email counselors who possess 600 different skill sets. The power of email counseling lies in our ability to assist clients in connecting with people coast-to-coast with experience in the same field.

North Idaho counseling locations include the North Idaho Workforce Training Center in Post Falls, PAC Business Center in Hayden, Bonner Business Center in Sandpoint, and the Job Services Office in Bonners Ferry. We are seeking counselors to serve in Moscow and Lewiston.

We conducted over 100 face-to-face counseling sessions and donated more than 475 hours of volunteer service in North Idaho in fiscal year 2003. Another 100 people traveled to the Business Information Center to attend a training workshop, a loan briefing, or utilize the resources of our business library. Our goal is to increase total counseling sessions in fiscal year 2004 by 40 per cent.

Approximately 25% of our counseling sessions are with existing businesses discussing growth issues, strategic planning, financial issues, and problems associated with running a business. Fifty per cent of our clients are women. Approximately 70% of clients considering starting a business are looking for financing. The majority need less than $50,000 to finance startup costs and provide working capital. We encourage clients to prepare a business plan and we work with them to determine financing options.

During the nine years I have counseled in North Idaho, approximately 500 people interested in starting a business or in business less than two years attended the more than 25 all day SCORE "Starting and Managing Your Own Business" workshops held in Moscow, Lewiston, Post Falls, Coeur d'Alene, Sandpoint, Bonners Ferry and Kellogg. Workshop presenters and sponsors included Small Business Development Centers as well as professionals, business executives, and lenders from the local community.

Success stories matter. I have attached stories of three North Idaho companies that SCORE has helped, Northwoods Construction, Northwest Santa Creations, and Silver Needle, Inc. In addition this past year we have assisted businesses in getting started, expanding, relocating, obtaining financing, and solving business problems.

As volunteers, we generously donate our time to help small businesses. We are pleased to participate with other business assistance organizations helping businesses in our communities start, grow, prosper and create jobs.

United States Senate Committee on Small Business and Entrepreneurship
Hearing

"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

Bruce King DVM
Owner
Lakewood Animal Hospital
February 16,2004

Senator Crapo, thank you for seeking input on small business funding opportunities. As a recent Small Business Administration borrower, I hope that relaying my story may provide useful information to your committee.

My name is Bruce King. I am a private practice veterinarian.
I have recently completed construction of a new 6500 square foot, small animal veterinary hospital in Coeur d' Alene, Idaho. The hospital employs 5 full time staff members. Employees earn an average wage of $8.50 per hour and receive full health and dental insurance coverage after successfully completing an initial probationary period. Provided that the hospital meets projections, full time employment will increase to 15 staff members within 3 years. Besides providing a valuable service to the community, the new hospital has created many good job opportunities. Construction of Lakewood Animal Hospital would not have occurred without the SBA loan program.

I graduated from the Washington State University College of Veterinary Medicine in 1995. I did what is most common of new graduates and went to work for an existing practice to gain experience. After 3 years I left that hospital and with a partner opened Kootenai Animal Hospital in Post Falls, Idaho 5 years ago. We purchased a bank-owned property, a bankrupt butcher shop-restaurant and remodeled the building into a hospital. Due to my business partner's friendship with a local banker, we were able to get all of the start up funds through a conventional, fixed rate loan easily. The hospital grew rapidly over the next 4 years. I sold the hospital in the fall of 2002. At that time I had $275,000 in cash from the sale, 8 years of veterinary experience, had launched one successful practice and had good credit. I assumed that with all of these factors in my favor that I would have no trouble obtaining financing to build the type of quality facility that I needed to provide excellent pet care.
I presented my business plan to four local lenders. All four lenders showed interest but none could do a conventional bank loan because I lacked 2 years of financial documents from the business that I was proposing to start! The hospital proposal did fit into the SBA loan program guidelines. I was initially hesitant to proceed with the SBA because it had the reputation of being slow, costly and a paperwork-burdensome process. I investigated financing options advertised by veterinary specific lenders and found them to be unacceptable. The lenders either were unwilling to lend on a new construction project of this size or would lend money with large

fees, high interest rates and short amortization schedules. I reluctantly decided to go with the SBA Loan Program due to a lack of other good options.

I have been pleasantly surprised and satisfied with the experience to this point. I experienced only slightly more paperwork requirement than was required of me to purchase a house. The loan process itself did take longer than my previous "conventional loan" experience but I did not consider it to be an excessive waiting period.
I would have been equally comfortable choosing any of the three local lenders that offered to do the SBA loan for me. I selected Mountain West Bank as my lender mainly because of their knowledge and familiarity with the CAIP funds. My banker, Bob Beck worked on my behalf to get my SBA fees paid by this program. This saved me $20,000. I suspect that I may have had an above average experience with the SBA with this project. I have read about some frustrating experiences that other veterinarians have had with the SBA in other parts of the country. I would not hesitate to recommend the same route for financing to another small business.

My only regret with this project is that I have a variable rate loan. I would feel more secure with a fixed rate even if that option required a slightly higher upfront fee. I have heard that CAIP funds may no longer be available to other borrowers. I would encourage you do whatever is possible to keep loan fees low, whether it is accomplished through maintaining the CAIP Program or through direct loan fee reductions.
In general your committee could help small business and employees by providing some type of significant financial incentive to companies offering living wage jobs with quality medical insurance benefits.

Senator Crapo, thank you for allowing me share my experience with your committee.

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
Hearing:
"Accessing Capital and Business Assistance"
February 16, 2004
Testimony

DEBBIE LAWTON
BUSINESS DEVELOPMENT OFFICER
SBA DIVISION
US BANK
FEBRUAY 16, 2004

Senator Crapo, as a lender under the SBA loan programs and a small business owner myself, I would like to thank you for focusing today's hearing on accessing capital and business assistance for small businesses. I consider testifying before you a unique opportunity and a grand American privilege.

I am an employee of US Bank in our Small Business Administration Division. I have spent the last 14 years of my career focusing on assisting small business owners obtain financing to start and grow their businesses. During my career I have helped approve and fund loans as small as $5,000 and as large as multi million dollars. I have helped assist numerous businesses under virtually every type of industry. This has been a very gratifying career for me.

The Small Business Administration lending programs are indispensable for the country's economic health. It is common knowledge that 98% of all jobs are created from small businesses. It is also common knowledge that the majority of small businesses do fail in the first few years. I also recognize the bank's risks in lending to small businesses. Many bank policies preclude lending to businesses with less than two years historical debt service. Without the aid of the US Small Business Administration loan program, many of these small businesses would not be able to obtain the financing to build their businesses and create these jobs. According to a recent article in the Chicago Tribune, the SBA program backs 40% of all long-term lending to the country's small businesses.

In most years, the US SBA loan programs have been able to meet the needs of both the lenders and the businesses. However, with the recent "shut down" of the SBA 7(a) loan program, many businesses (estimated at over 200) have been caught in the middle with no where to go. This "shut down" and the subsequent capping of loans of $750,000 along with the first time ever of prohibiting "piggy-back" loans; has caused the SBA to slam the door on $1.3 million 7(a) requests as of 12/30/03 alone. Many of these small business owners do not qualify for the other loan programs, or do not have the time to switch programs. I was personally handling two business acquisitions with purchase prices of over $1.2 million which were impacted by the recent changes. Since these loans are for business assets and not real estate, they do not qualify for the 504-loan program. In keeping with the terms of the cap and with no "piggy back option", I am limited to lending them $750,000. This means that the prospective small business owner needs to come up with over $500,000 in cash. Not an easy feat in today's economy, or any economy. What will happen to these businesses and these jobs??? I am working with a car dealership who is seeking $2 million to refinance a balloon payment that is due this year. Again, because it is a refinance, it does not qualify for the 504 program. This borrower has NO options at this point. I have no way to help him. What will happen to this business and his employees? This is the impact of the SBA changes on one office in North Idaho. Multiply these situations by the hundreds of lenders in thousands of communities to get feel the impact on small businesses.

I could continue to list businesses here locally and throughout the United States that have been impacted by this policy. We, the citizens of Idaho and the United States, need your help and we need it now.

The facts as I understand them are:

- The U.S. Small Business Administration "shut down" the 7(a) loan program on January 9, retroactive to December 30, 2003. They resumed funding on January 14, 2003 with severe limitations.

- The U.S. Small Business Administration (SBA) claims it has run out of money for its flagship 7(a) loan program. This is because the Administration did not request adequate funds for the program for fiscal year 2004.

- The Administration only requested a program level of $9.3 billion, even though the program did $11.3 billion last year, even with a $500,000 loan cap in place for nearly half of the fiscal year. The National Association of Government Guaranteed Lenders (NAGGL) estimated that demand would be $12.5 billion beginning with our budget testimonies in February 2003.

- Loan volume for the first three months of fiscal year 2004 was $3.137 billion, a level of demand that clearly supports NAGGL's estimates of demand.

- Because the Administration did not seek sufficient program level, the SBA has now capped the 7(a) program and prohibited "piggy-back" loans from lenders, depriving small businesses of the capital they need in order to expand their businesses, hire new people, and aid the American economic recovery. This occurred just a few weeks after SBA Administrator Barreto told the NAGGL Annual Conferees that the "program would not be shutdown, and that the $9.3 billion program request would be sufficient."

- The Administration should either request a reprogramming of funds or submit a supplemental appropriation request sufficient to fund the 7(a) program to $12.5 billion this year. The SBA should be required to lift both the $750,000 cap it has put in place to restrict small business access to capital and the "piggy-back" prohibition. The SBA should be required to stop the budget gimmicks and put forward a credible budget request that ensures this program is funded properly in fiscal year 2005 and beyond without fee increases to borrowers and lenders. Don't let this Administration dismantle a program that has served small businesses so well for so long.

- The Bush administration's fiscal year 2005 budget proposal, recently released, would increase the lending authority for the SBA 7(a) program by 30 percent to $12.5 billion. But it also would eliminate 7(a) subsidies and fund the program's higher lending level by boosting the fees imposed on borrowers and lenders. To support a program level of $12.5 billion, borrower lender fees would have to be increased by nearly $134 million. Increasing these fees will only further harm this program and bring more instability to a program that has demonstrated its worthiness to small businesses and lenders.

It is my understanding that the SBA is working on reprogramming funds from other under utilized programs to add another $1 billion in funding and that this could ease the restrictions on piggy backs. However there are far too many businesses caught in this trap right NOW. We need this to happen very quickly to ensure we are not caught in this situation again.

Senator Crapo, we need your help in appropriating sufficient funds to the program in future budgets without raising the fees associated with the program to a level that lenders and borrowers can not effectively utilize the program.

Thank you Senator Crapo for the opportunity to present my story. I look forward to your leadership on tackling these critically important issues.

John Lynn
Regional Director Idaho Small Business Development Center
February 16, 2004

I am the Regional Director for the Idaho Small Business Development Center housed at North Idaho College. My office provides business consulting, market research and training services to small business owners and entrepreneurs in the five northern counties of Idaho (Region I).

Our office is funded by a grant from the Small Business Administration (33%), Idaho Legislature (33%) and North Idaho College (33%). The SBDC operates during normal business hours 7:30 to 5:00 Monday through Thursday and 7:30 to 2:30 on Fridays. We are staffed by one full time director/consultant, one part time consultant, one full time training coordinator/quickbooks consultant, and one part time administrative assistant.

Mission:

To enhance the success of small businesses in Idaho by providing high-quality consulting and training.

Vision:

To be the primary provider of quality assistance to small business clients, our customers.

Tag Line:

direction solutions impact

Operating Philosophy:

Service is the primary product of the Idaho SBDC. Consequently, the Center must be committed to creating and maintaining a high standard of service. This standard has three cornerstones:

1. **Focus on the Client**: The very future of the Idaho SBDC program depends on creating satisfied clients. To this end, each client contact must be considered an opportunity to focus on client needs and desires. Responding quickly with individual attention to specific and carefully identified client needs, then seeking critical evaluation of our performance, is the routine that will be followed with each client and training attendee.

2. **Devotion to Quality**: Providing consulting and training through a quality process and constantly seeking ways to improve that process are the principles of this cornerstone of service. Fostering teamwork, eliminating physical and organizational barriers that separate people, establishing long-term relationships with partners and encouraging all to participate in quality

improvement are some of the actions that demonstrate the Center's devotion to quality.

3. **Concentration on Innovation**: To innovate is to improve through change. The Center must constantly seek ways to improve its methods and processes and assume a leadership role in trying new approaches to serve clients. Regular performance reviews, participation in organizations, and attending professional development workshops are some of the ways that the Center identifies and encourages innovation.

Priorities:

The Idaho SBDC will focus on the following priorities:

1. Adding expertise in technology-based, high-growth businesses.
2. Enhancing the Idaho Virtual Incubator's capabilities in rural Idaho.
3. Expanding services/partnerships to include regulatory assistance to small businesses.
4. Supporting a strong NxLeveL entrepreneurial training program.

Small business development in north Idaho presents many challenges. The accelerated population and economic growth in Kootenai is not reflected in the other four northern counties. Unemployment rates continue to be higher then the national average and most areas have experienced significant job losses due to the downturn in the natural resource based economy (timber and mining).

Our office works closely with the various banks, loan funds and economic development agencies in the Idaho panhandle. Without the SBA loan programs (7a guarantee & 504), access to debt capital for start up or existing small business would be non-existent. Well over 90% of our clients that receive loans have a SBA guarantee associated with them.

A qualified business in Kootenai County that applies for a small business loan has many choices of lending institutions. The same cannot be said for the rural regions of north Idaho. Without the loan funds available through Panhandle Area Council (PAC), access to capital does not exist in rural Idaho. Most rural areas are lacking small community banks. In our experience, even in Kootenai County, it is the small community banks that are doing the majority of small business/business start-up financing.

United States Senate Committee on Small Business & Entrepreneurship

Field Hearing:
"Accessing Capital and Business Assistance:
Are Current Programs Meeting the Needs of Rural Small Business"

February 16, 2004

Archie McGregor
Small Business Owner
Archie's IGA-St. Maries, Idaho

Senator Crapo, as the owner of a small business in a rural area of Idaho, I would like to express my appreciation to you for giving me the opportunity to testify on the question of accessing capital and business assistance in the rural areas of Idaho.

After working for a national chain grocery store for many years I looked for an opportunity to own my own business. The normal risks and challenges of owning your own business intrigued me. I felt that I had learned the skills to operate my own business and succeed. Finally I took the risk on by investing my own savings and secured a bank loan and purchased my first IGA store in St. Maries, Idaho. Five years ago after successfully operating this store I recognized the need to modernize it and looked for value added services to offer to my customers. To achieve this plan, I qualified for economic development loan from the area Certified Development Corporation. This was my first time to use loan programs available to small businesses. Although the paper work seemed insurmountable the program provided the loan I needed and today my store has expanded its' customer and employment base.

With the success of my first store and an understanding of operating a grocery facility in a rural setting, I purchased a second store in Orofino, ID. The successes I achieved in St. Maries are now being applying to my second store. I will be modernizing the facility, expanding services and creating more jobs.

I have found that rural businesses face challenges not imposed on urban or suburban businesses. A good example is the availably of transportation for goods. Because of our location, both of my stores are not on typical delivery routes. To get service that keeps me competitive with urban areas, I must find creative ways to keep my stores supplied with goods and fresh consumables. This very question has been pressing my evaluation process in the past few weeks because I lost my established delivery system and therefore needed to determine a new cost effective way to supply my stores. An urban storeowner would simply bid out for a new transportation supplier and usually have many choices; I have to create the solutions my self.

It is my understanding that in Idaho over 80% of the workforce is employed by small businesses. Since most of Idaho is rural, the types of challenges I have faced in the operation of my business must be a concern to most of the small businesses throughout the state. Taking this logic further, 80% of the workforce is indirectly challenged by the same concerns that face small businesses.

If small businesses are to remain effective, competitive and growing we need assure that the programs offered by the SBA are available, valuable and designed to address the needs of small businesses. For rural areas there needs to be some consideration for the unique challenges faced by small businesses operating in these areas. They can't be compared with urban businesses. For example, the creation of one job in a rural setting may have a significant effect on an economy while the creation of a job in an urban setting may have little if any effect on the local economy. I t seems that there should be some evaluation of merit when offering services to small businesses in rural areas. I don't have all the answers but rural businesses are a valuable part of the nation's economy and they should be offered services that account for the unique circumstances that face.

Senator Crapo, thank you for this opportunity to discuss the situations faced by rural small businesses.

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United States Senate Committee on Small Business & Entrepreneurship
Hearing:
"Accessing Capital and Business Assistance"
February 16th 2004

To Begin with I would like to thank Senator Crapo and his staff for the opportunity to present the history and growth of my company Randall Contracting Inc. None of these accomplishments would have been as completely successful without the Capital and Business Assistance provided by the 7a S.B.A loan program and the local lender partnership of Mountain West Bank.

Randall Contracting is an excavation company specializing in site work projects involving reclamation and utilities. Our clients are Mining Companies, Private developers, and Governments that are State, Local and Federal.

Randall Contracting begin business in February of 2001 as a sole proprietorship with a SBA backed loan of $100,000.00. At the time of our opening we were basically two employees a shovel and a lot of persistence. By the end of the first twelve months we had managed to land three projects with a gross revenue of $750,000.00. Randall Contracting became a Corporation and we had employed seven people on a seasonal basis and still two fulltime. During our first year the guidance and confidence given by Bob Beck and his staff at Mountain West Bank along with John Lynn from the Small Business Learning Center created an even greater desire for Randall Contracting to succeed. At the end of our first year we had accomplished paying off our first SBA loan and established ourselves as a reputable and dependable company. Since the very first day of business I have had the attitude that a customer will always get a completed first class project on time and under budget. I also studied existing successful business's and modeled Randall Contracting after their success.

MISSION STATEMENT

"To assemble a team of honest hardworking personnel dedicated to the unsurpassed quality of performance the client deserves."

"This mission will continue the pride and growth of the company ensuring future projects and opportunities to the company and the employees of Randall Contracting."

Year two of Randall Contracting begin by searching new ideas of expanding on our previous years success. Through contacts we had established the previous year I had found a reputable company going through a down size and eliminating their construction division. I approached the company and offered rather than eliminating jobs and auctioning off equipment the idea that Randall Contracting purchase the company and continue their current contracts. After a couple months of negotiations we came to a purchase agreement. Meanwhile I also had weekly meetings with Bob Beck of Mountain West Bank. By previously establishing the relationship with Bob Beck another 7a SBA loan was quickly processed. Suddenly Randall Contracting had construction offices in Idaho and Montana along with 12 fulltime employees with full benefits. We quickly drew on our employee's expertise and created opportunities with every contact we made.

I do have to add at this point I was wondering for the first few months can I really take on the responsibility of running and creating a multi-million dollar a year company given the present economic situation. I had a lot of sleepless nights and finally came to the conclusion that as president of the company I would succeed simply because there where a lot of families depending on me.

By the height of the construction season in 2002 Randall Contracting had created 58 jobs for seasonal employees and now had 14 full time positions.

I have to say by mid summer it felt really good to be able to go to sleep at night knowing I had helped put food on the tables of over 70 families.

We finished the year with $4,800,000.00 in gross revenue a growth rate of just over 500% in one year. This at a time when the overall growth of the economy was rapidly spiraling downward.

Randall Contracting begin 2003 with around $2,000,000.00 in carryover work and contracts. We also carried over an exceptional reputation of quality job performance. We were able to retain most of our seasonal workforce from the previous year and added where needed. In 2003 we purchased an additional 15 pieces of construction equipment to add to our fleet of 50 other pieces purchased in 2002. During the height of the construction season of 03 Randall Contracting had a workforce of 77 people and 31 subcontractors. Based on our past performance record we were successfully awarded several multi-year contracts and finished with another record year. With the year end Randall Contracting had gross receivables totaling over $6,400,000.00.

We are now starting our 4th year in business. With our past performance record and the Multi-year projects we have in hand our current backlog of work for 2004 is $8,250,000.00 this amount without bidding any other projects will produce another record year for Randall Contracting . The real clincher to this is that this has taken place in rural Shoshone County , Kellogg Idaho. One of the highest unemployment counties in Idaho. To date over the last three years because of the 7a SBA program, Randall Contracting has been able to contribute over $8,000,000.00 towards rebuilding the Sliver Valley through payroll, materials and supplies.

MISSION STATEMENT

"To assemble a team of honest hardworking personnel dedicated to the unsurpassed quality of performance the client deserves."

"This in turn will continue the pride and growth of the company ensuring future projects and opportunities for the company and the employees of Randall Contracting."

We now have had 21 employees buy homes in Shoshone County. These are young hard working people who believe in building a growing community. None of this would have been possible without a Rural 7a SBA program.

In closing I would like to thank you again for the opportunities presented to Randall Contracting, but most of all the credit for our success goes to my employees and family, clients, the SBA, Mountain West Bank and Bob Beck for their confidence in Rob Randall. Also I would like to extend a sincere thanks to Senator Marti Calabretta who awarded Randall Contracting our first large project in 2001 the "Success Mine cleanup project."

Sincerely

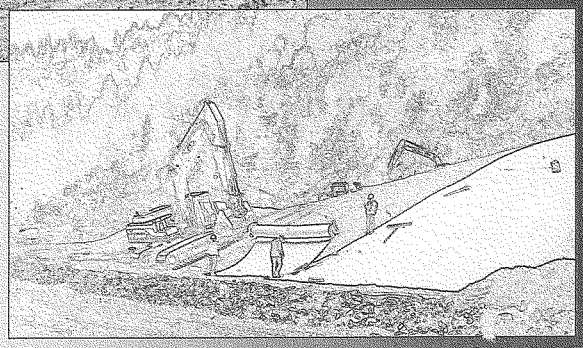
Rob Randall, president
Randall Contracting Inc.

MISSION STATEMENT

"To assemble a team of honest hardworking personnel dedicated to the unsurpassed quality of performance the client deserves."

"This in turn will continue the pride and growth of the company ensuring future projects and opportunities for the company and the employees of Randall Contracting."

Statement of Qualifications



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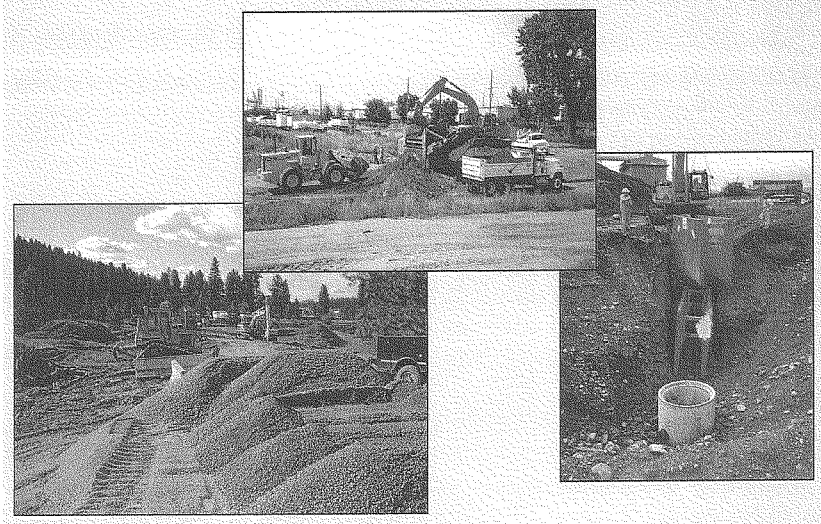
Randall Contracting, Inc.

Randall Contracting, Inc.'s mission is to provide quality construction personnel and equipment in a cost effective and timely manner to meet the needs and surpass the expectations of our clients. We provide quality contracting and construction services for a wide range of industrial clients, public agencies, municipalities, and private firms. Our personal commitment to our clients is shown in our flexibility in contract negotiations on project modifications. We offer experienced laborers, equipment operators, and managers with proven records of success. All of our highly qualified staff are dedicated to quality work and devoted to excellent client service.

Randall Contracting, Inc. employees have developed and maintained many long-term client relationships throughout their diverse and successful careers. These relationships give our clients confidence in knowing we can effectively complete each and every one of their projects. We continue to emphasize and invest in building new client relationships.

We are proud to present this Statement of Qualifications, through which we will introduce you to our highly trusted and reliable staff.

Thank you for considering Randall Contracting, Inc.



Randall Contracting, Inc.

Construction Services and Capabilities

Randall Contracting, Inc. is a Hubzone Contractor and a licensed contracting company in Montana, Idaho, and Washington, with offices in Kellogg, ID and East Helena, MT. Our diversity in experience allows us to provide services in:

Heavy Civil Construction

- Site Development
- Flood Control Facilities
- Small Dams
- Pipelines
- General Earthwork
- Landfills
- Water & Waste Water Systems

Remediation and Reclamation

- Hazardous Waste Repositories
- Residential/Commercial Hazardous Soil Removal & Treatment
- Abandoned Mine Remediation
- Mine Discharge Treatment Systems

Construction Management

- We use an appropriate quality control system and provide competent oversight and management on each project.
- We provide effective contract/project management to ensure the project achieves success on all levels.

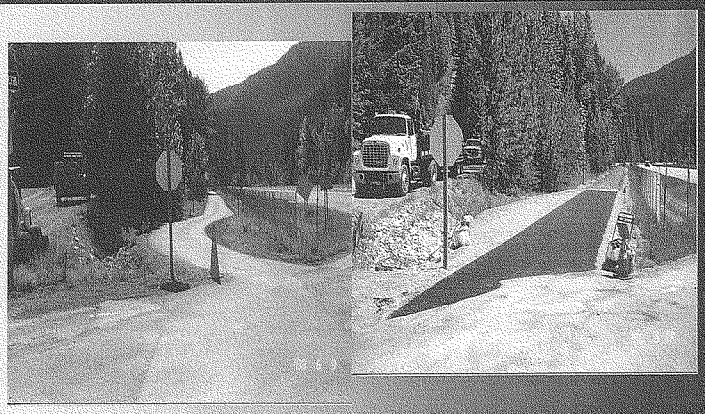
Randall Contracting, Inc.

Superfund Remediation of Commercial and Residential Sites

Client: Upstream Mining Group **Year: Ongoing**
Location: Kellogg, Idaho

Randall Contracting, Inc. is the prime contractor for remediation work at Bunker Hill, one of the United States' largest Superfund sites. Many decades of mining and smelting in the area has resulted in high levels of metals in area water and soil. Work includes scheduling, utility locates,video and photo documentation, soil removal and replacement for residential yards, right-of-way areas, and commercial properties. Crews install sod at residential sites and provide other landscaping remedies as needed.

UPRR Rails To Trails Extension Project



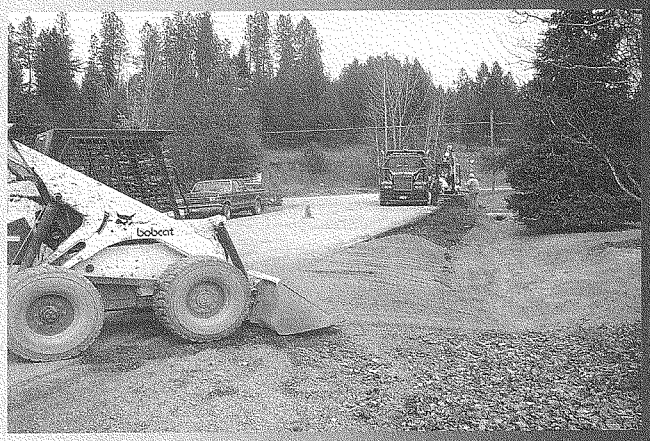
Before and after photos of asphalt repairs to straighten path near Mullan, Idaho.

Client: UPRR Operations and Maintenance Project
Year: 2003
Location: Mullan to Plummer, Idaho

Randall Contracting, Inc. is the prime contractor for this multi year contract to repair and maintain the Rails To Trails from Mullan to Plummer. Work includes repairing shoulder gravel, washouts and other repairs as needed.

Randall Contracting, Inc.

Idaho Department of Environmental Quality
Coeur d'Alene Basin Yard Remediation



Client: State of Idaho Department Of Environmental Quality
Location: The Coeur d'Alene River Drainage

Randall Contracting, Inc. is the prime contractor performing the remediation of residential and commercial properties within the boundaries of the Coeur d' Alene River drainage which stretches from the Idaho/Montana border to the Spokane River. Decades of mining and smelting discharges along with large spring runoffs have resulted in unacceptable levels of heavy metals within the river basin. Work consists of the removal and replacement of contaminated soils and gravels. Sod placement and other landscaping barriers are used as well.

Randall Contracting, Inc.

Residential Soil Removal and Replacement

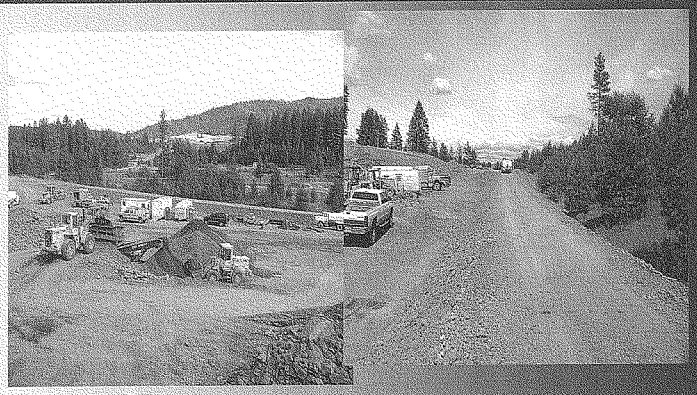
Randall Contracting crews replace contaminated soils at residences near a lead smelter.

Client: ASARCO Incorporated **Year: 1991-2005**
Location: East Helena, Montana

The area in and around this lead smelter is an EPA-designated CERCLA site and cleanup is required in the site Consent Agreement. Randall Contracting, Inc. recently became the prime contractor on the project. Remedial activities to be conducted by Randall Contracting, Inc. Include nego ating access agreements and individual site work plans, and removal of contaminated soils and replacement. Oversight operations included surveying, and sampling and analysis to confirm achievement of remediation goals.

Randall Contracting, Inc.

UPRR Wallace – Mullan Branch Line West Side Trail Construction Project



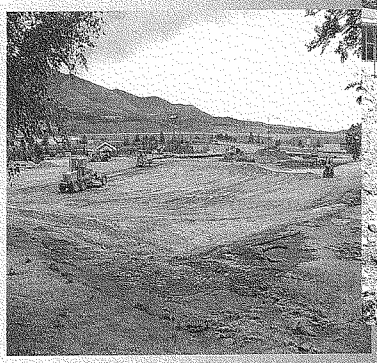
Screening materials to spec. and constructing 10' wide path to grade.

Client: Union Pacific Railroad
Year: 2003
Location: Plummer, Idaho

Randall Contracting, Inc. is the prime contractor for the Union Pacific Railroad Wallace – Mullan Branch Line West Side Trail Project included constructing 6.3 miles of a 10' wide course aggregate base trail to final grade for future placement of asphalt. Also placed culverts and other drainage improvements. Schedule was paramount and project was completed on schedule.

Randall Contracting, Inc.

Shoshone Medical Center Site work



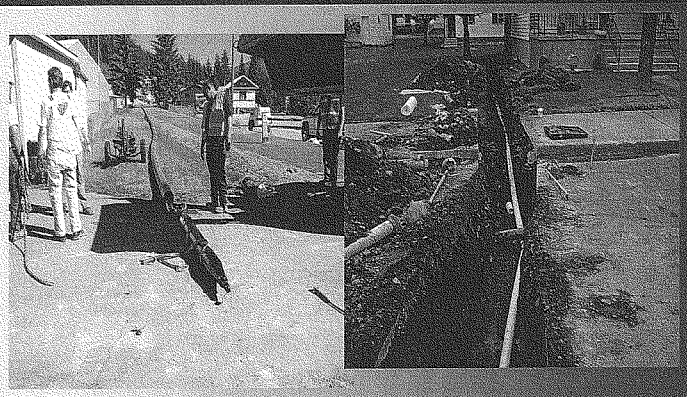
Constructing to grade pad for new hospital and installing utilities onsite.

Client:
Year: 2003-Ongoing
Location: Kellogg, Idaho

Randall Contracting, Inc. is the Site work contractor for the Shoshone Medical Center. Site work included building a pad for the new hospital, relocating existing utilities. Placed new 8" water main and placed new 8" & 10" sewer system. Constructed new 36", 24" & 18" storm drain system, firewater vault and 6" system. Randall Contracting also was awarded the earthwork for the concrete foundations. Upon completion of the new hospital Randall Contracting will finish all earthwork and landscaping.

Randall Contracting, Inc.

Mullan Collection Systems Upgrade Project



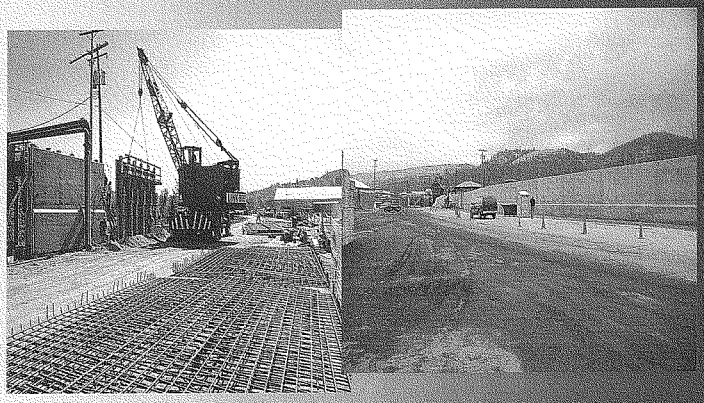
Pipe Bursting a sewer line and placing new PVC sewer line.

Client: South Fork Sewer Dist.
Year: 2003
Location: Mullan, Idaho

Randall Contracting, Inc. is the prime contractor for the Mullan Collection Systems Upgrades Project. Work included mainline gravity sewer 8" PVC, CIPP 8" & 12", pipe bursting 6" to 8" and 8" to 8". Laterals placed by conventional, CIPP & pipe bursting along with twelve manholes being placed. Other work included asphalt and concrete replacement and disturbed soils on properties remediated.

Randall Contracting, Inc.

St. Marie's Floodwall Project



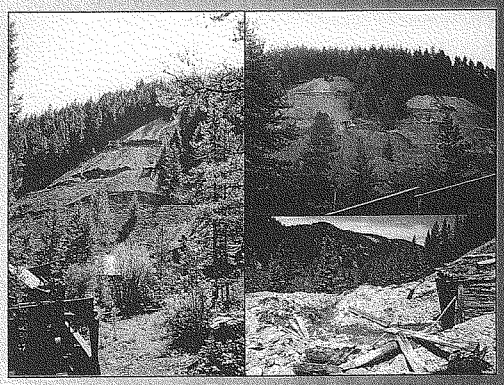
Construction of floodwall with crane and completed floodwall.

Client: Centennial Contractors
Year: 2003
Location: St. Marie's, Idaho

Randall Contracting, Inc. is the contractor for the St. Marie's Floodwall Project. Site work included construction of a 725' by 16' high concrete wall, T-wall and earthen berm along the river. Paved asphalt area along the entire length of the wall.

Randall Contracting, Inc.

Abandoned Mine Remediation



Remediation of the Tar Box Mine in the Superior County Area of Montana.

Client: USDA Forest Service **Year: 2002**
Location: Lolo National Forest, Superior County, Montana

Randall Contractings' remediation work at this abandoned hard rock mine in Montana's Superior Mountains included the stabilization and revegetation of very steep terrain (see photo above), the construction of a lined waste rock repository, and the stabilization and closure of two adits. Site work also included the construction of run-on diversion controls, installation of culverts and construction of a catch basin.

Randall Contracting, Inc.

Moon Creek Repository

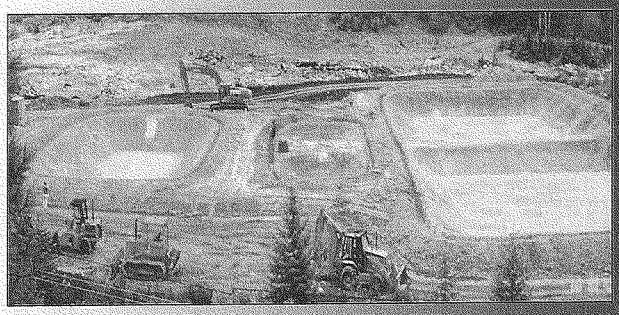
Moon Creek Repository

Client: United States Forest Service **Year: 1999**
Location: Kellogg, ID

The 172,000 cubic yard Moon Creek repository was constructed as part of this watershed restoration project. Rob Randall was in a primary supervisory role on this project. Additional tasks included in the project were the re-alignment of the stream, closure of vertical and horizontal mine shafts, and the revegetation of 15 acres.

Randall Contracting, Inc.

Gem Portal Pilot-Scale Water Treatment System



Construction of two pilot-scale, passive Acid Mine Drainage Treatment Ponds.

Client: ASARCO Incorporated **Year: Ongoing**
Location: Wallace, Idaho

Randall Contracting, Inc., formerly the Hydrometrics Construction division, constructed and is operating a pilot-scale water treatment system to treat discharge from an historic mine adit near Wallace, Idaho. The adit discharge includes elevated concentrations of sulfate and several metals including copper and zinc. The treatment system includes two passive biotreatment cells which are operated in parallel and currently treats 20 gallons per minute of mine water. One cell contains a gravel/compost substrate designed to passively provide organic carbon to support the sulfate reducing bacteria which aid in metals removal. The second cell contains clean gravel substrate and is dosed with a liquid organic carbon reagent. The pilot-scale system will be operated for a three year period to determine which cell is most effective at removing metals from the mine drainage. Following pilot-scale operation, a full-scale system will be constructed based on results of the pilot-scale treatability test. The full-scale system will be designed to treat in excess of 100 gallons per minute of mine drainage.

Randall Contracting, Inc.'s crews are currently operating the treatment system.

Randall Contracting, Inc.

Blackwell Recreation Area

Blackwell Boat Launch concrete placement.

Client: Bureau of Land Management **Year: 2002**
Location: Coeur d'Alene, ID

Randall Contracting, Inc. is currently developing Phase I of a boat launching and recreation area at the Coeur d'Alene Lake and Spokane River junction. The work includes a four-lane concrete boat launch, floating docks, parking lot, water and sewer services, US95 widening, and signage. Phase II included construction of restroom facilities, landscaping and asphalt parking lot with painted parking lines.

Randall Contracting, Inc.

Mine Reclamation and Waste Water Collection System

U.S.F.S. Road Relocation and Construction of French Drain

Client: Asarco
Year: 2003-Ongoing
Location: Philipsburg, Montana

Randall Contracting, Inc. is the prime contractor for Mine reclamation and water collection system work at the Black Pine Mine in Granite County. Work composed of relocating USFS road, constructing storm-water control ditches, a lined collection pond, French drains and re-grading waste rock pile. Contaminated soils were removed and stored for later use as a cushion layer for the final cap over the waste rock area.

Randall Contracting, Inc.

INSURANCE

Insurance Type:	Coverage Limit:
Liability:	
Automobile Liability	• $2,000,000
General Liability	• $4,000,000
Pollution Liability	• $2,000,000
Workmans Comp	• $500,000 per employee

BONDING

Bond Type:	Capacity:
Single Limit	• $5,000,000
Aggregate Limit	• $10,000,000

FINANCIAL REFERENCES

Banking Reference:	Bob Beck, Mountain West Bank, Coeur d' Alene, ID	208-765-0284
Bonding Reference:	Jim Majesky, Wolf-Anchor-Rapp, Inc. Spokane, WA	509-535-9178

Randall Contracting, Inc. welcomes the review of our financial stability and credit history.

DUNS NO: 126009021
EIN NO: 82-0531292

Randall Contracting, Inc.
#90 Wildcat Way
Kellogg, Idaho 83837
208-784-1503 Phone
208-784-0135 Fax
randallcontracting@msn.com

Randall Contracting Inc. Client References, Past Performance and Contract Values.

1. Upstream Mining Group.
   Residential Soils Remediation Project in the Silver Valley Superfund Site of North Idaho
   Contact Name: Dan Meyer 208-784-9292
   Contract Value : $2,000,000.00 in 2002, $1,000,000.00 in 2003 est @ $1,000,000.00 in 2004

2. ASARCO
   Yard Remediation Project in East Helena, Montana
   Miscellaneous mine site Water Treatment and re-grading of land
   Contact Name : Chris Pfahl 208-753-4321
   Contract Value : $450,000.00 in 2002, $575,000.00 in 2003, est @ $450,000.00 in 2004

3. Bureau of Land Management
   Installation of Mine site water treatment Bio-reactors
   Watershed and Stream Bank Restoration
   Boat Ramp and Picnic Facilities,
   Contact Names: Dave Fortier, Will Perry 208-769-5000
   Contract Values Total: $1,200,000.00 in 2002

4. USACE Yard Remediation Project, Silver Valley Superfund Area. Wilder Construction was the Prime Contractor with Randall as a subcontractor.
   Contact Name : Tyler Britz 1-425-551-3100
   Contract Value for Randall : $200,000.00 in 2002

MISSION STATEMENT

"To assemble a team of honest hardworking personnel dedicated to the unsurpassed quality of performance the client deserves."

"This in turn will continue the pride and growth of the company ensuring future projects and opportunities for the company and the employees of Randall Contracting."

Past Performance ,References and Contract Values

5. US Forest Service. Tarbox Mine Reclamation
   Mine Site regrading and installation of mine tailings repository for contaminated materials, underdrains, pond liner, utilities
   Contact Name: Joan Mcnab 1-406-329-3766
   Contract Value: $275,000.00

6. Silver Valley Natural Resource Trustees, Success Mine Phase 2
   Excavation and land grading, install underground grout wall and water treatment vaults, Misc piping
   Contact Name: Marti Calabretta 1-208-752-6371 or Bryony Hansen 208-676-9933
   Contract Value: $575,000.00

7. Union Pacific Railroad, On-going Trail Maintenance and completion of 8 miles of trail
   Contact Name : Kevin Yrjana 1-208-667-2948
   Contract Value: $300,000.00 in 2002, $1,200,000.00 in 2003

8. Montana Fish,Wildlife, Parks. Boat Ramp Facilities, utilities 2,500 building
   Contact Name: Seth Brandenburger 1-406-841-4008 ext 108
   Contract Value : $285,000.00 , 2002

9. Shoshone Hospital, Excavation and utilities for new Hospital located in Kellogg
   Contact Name : Bill Walker 1-208-783-0167
   Contract Value: $ 600,000.00 on-going

10. Idaho Department of Environmental Quality, Reclamation of Lead Contaminated Residential properties. 5 year project
    Contact Name : Luke Russell 1-208-783-5781
    Contract Value : $1,200,000.00 in 2003 Estimated $ 2,500,000.00 in 2004

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Past Performance, References and Contract Values

11. South Fork Sewer District located in Mullan Idaho. Upgrade,Replace existing sewer and water services
    Contact : Ross Stout 1-208-753-8041
    Contract Value: $580,000.00 in 2003

12. Garwood Water District. Upgrade existing water services
    Contact : Corky Witherwax 208-765-1144
    Contract Value : $ 36,000.00 in 2003

13. Golder and Associates. Miscellaneous excavations and test pits
    Contact: Bryony Hansen, 208-676-9933
    Contract Value : $16,000.00 in 2003

14. Centennial Contractors. Concrete Floodwall ,Potlatch Mill Site
    Contact : 208-457-0852
    Contract Value : $340,000.00

Suppliers, Material,Vendor Reference List

Zanetti Bros 208-752-1178
H & E Equipment 208-664-1134
Arrow Construction Supply 208-772-4076
Forest Steel 208-772-4766
Interstate Concrete 208-765-1144
Consolidated Supply 208-762-2568
Panhandle Concrete 208-667-8179
Ingersoll-Rand 509-981-1529
Les Schwab Tire 208-762-8030

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Randall Contracting, Inc.

KEY PERSONNEL

Kellogg, ID

Employee	Title	Years of Experience
Rob Randall	President	20
Rick Schlothauer	Construction Manager	36
Bryon Morgan	Project Manager	12
Dan Bishop	Project Superintendent	11
Bonnie Samms	Senior Secretary	13
Matt Gibbs	Project Manager	5
Seth Horning	Operator/Mechanic	9
Minde Beehner	Project Manager	10
Pat Kenyon	Project Manager	17

East Helena, MT

Employee	Title	Years of Experience
Steve Lindberg	Project Manager	11
Brian Vermillion	Operator	7
Paul Antonia	Operator	7

Currently RANDALL CONTRACTING INC has a personnel staff of 44 employees including Laborers, Truck Drivers, and Equipment Operators.

Randall Contracting, Inc.
90 Wildcat Way, Kellogg, ID 83837

2004 Randall Contracting Inc. Equipment List
Revised Date: 1/12/04

Equip. #	Vehicle Description	EQUIP LOC
	TRUCKS	
PU01	1992 Green Ford F-250 4x4	EH
PU02	1983 White GMC C3500 1 ton	Kellogg
PU03	1980 Chevy 1Ton Pickup	Kellogg
PU04	1991 Blue Ford F-150 4wd	Kellogg
PU05	1995 White Ford F-250	Kellogg
PU06	1993 Grey Toyota Truck 2wd	Kellogg
PU07	1996 White Ford Ranger 2wd	Kellogg
PU08	1995 Blue Ford Ranger 2wd	Kellogg
PU09	1996 White F-150 ext Cab 2wd	Kellogg
PU10	1997 F-250 White dsl	Kellogg
PU11	1997 F-350 White dsl	Kellogg
PU12	2000 F-350 Silver 4dr 4wd dsl	Kellogg
PU13	2001 F-250 Blue 4dr 4wd dsl	Kellogg
PU14	2001 Chevy Suburban 4dr 4wd	Kellogg
PU15	2003 Ford F-250 Green 4wd	Kellogg
PU16	1997 Ford F-250 White 2wd	Kellogg
	SKIDSTEER LOADERS	
BC01	1994 Bobcat 853	EH
BC02	1998 Bobcat 873	EH
BC03	1994 Bobcat 943	Kellogg
BC04	1997 Bobcat 453	Kellogg
BC05	1999 Bobcat 873	Kellogg
BC06	2002 Bobcat 753	Kellogg
BC07	2003 Bobcats S-175	Kellogg
BC08	2003 Bobcats S-175	Kellogg
	MINI EXCAVATORS	
MX01	1994 Bobcat Mini-x 320	EH
MX02	2002 Bobcat Mini-X 337	Kellogg
MX03	2003 Bobcat Mini-X 337	Kellogg
	EXCAVATORS	
EX01	1993 Cat 325 Excavator w/Thumb	Kellogg
EX02	1997 Hitachi 220 L Excavator	Kellogg
	DOZERS	
DZ01	1992 John Deere 650G Dozer	Kellogg
DZ02	1993 Cat D5 C	Kellogg
DZ03	1994 Cat D4 XLH	Kellogg
	GRADERS	
GR01	1977 John Deere 570A Grader	Kellogg
	WHEEL BACKHOES	
BH01	1996 Cat 426B Backhoe	Kellogg
BH02	1997 John Deere 410E Backhoe	Kellogg
	DUMP TRUCKS	
DT01	1988 IHC/8300 Dump Truck	EH
DT02	1990 KW T600 Dump Truck	Kellogg

Equip. #	Vehicle Description	EQUIP LOC
	WHEEL LOADERS	
WL01	1994 Cat IT28 Loader	EH
WL02	1993 Cat 926E Loader	Kellogg
WL03	1997 Volvo L-120	Kellogg
WL04	1997 Volvo L-90	Kellogg
	WATER TRUCKS	
WT01	1988 Ford L-9000 4000 gallon	EH
WT02	1991 Ford L-9000 4000 gallon	Kellogg
WT03	1992 Peterbuilt Water Truck (4000)	Kellogg
	MISC. TRUCKS	
MT01	1987 Green GMC Maint. Truck	Kellogg
FT01	1989 IHC/2300 Fuel Truck	EH
	COMPACTORS	
CP01	1992 Cat CS323 (Smooth)	Kellogg
CP02	1992 Cat CS323 (Smooth)	Kellogg
CP03	1992 Cat CS323 (Sheepsfoot)	Kellogg
CP04	1997 Hy-Pac Compactor C857A	Kellogg
	TRAILERS	
TR01	1994 Homemade Tool Van (20 ft.)	EH
TR02	1996 Homemade trailer (16 ft.)	EH
TR03	1995 Contrail/Utility	EH
TR04	Pressure Washer Trailer	Kellogg
TR05	1975 Trailer Van (40 ft.)	Kellogg
TR06	1996 Big Tex 18' Trailer	Kellogg
TR07	1994 Max 16' Trailer/Pressure Washer	Kellogg
TR08	1997 Yellow Gooseneck Trailer	Kellogg
TR09	1994 12Ton Contrail Trailer	Kellogg
TR10	1998 Wells Cargo Enclosed Trailer	Kellogg
TR11	1995 Homemade Tool Van Trailer	Kellogg
TR12	2003 Contrail Trailer (12,000 lbs)	Kellogg
TR13	2003 Contrail Trailer (10,000 lbs)	Kellogg
TR14	1989 Trak King Trailer	T. Falls
	PUMPS	
GP01	Godwinn 8" Pump	Kellogg
GP02	Goddwin 6" Pump	Kellogg
GP03	Hurrican Pump 12XD Cat 65hp	EH
	AIR COMPRESSORS	
AT01	1997 Ingersol Rand P185WJD	Kellogg
AT02	1997 Ingersol Rand P185WJD	Kellogg
	MISC.	
FL01	Case Construction King Forklift	Kellogg
FS01	Finlay Screenall	Kellogg
PL01	Farm Disc Plow	Kellogg
LC01	2003 Kawasaki Ground Cruiser	Kellogg
SW01	1994 Tennant 385 Sweeper	Kellogg

COMMENTS FOR THE RECORD

STATEMENT FOR THE RECORD
U.S. SMALL BUSINESS ADMINISTRATION
SBA'S CAPITAL ACCESS AND BUSINESS ASSISTANCE PROGRAMS

Mr. Chairman, and members of the Committee, thank you for inviting the U.S. Small Business Administration (SBA) to submit testimony for the record on its small business assistance programs.

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

As you are aware, SBA submitted its FY 2005 budget request on February 2, 2004. This budget will ensure continuity in SBA's programs for America's small businesses while reducing SBA costs to the taxpayer by approximately $120 million. Through improved management and program reforms, SBA will better serve America's small businesses by reaching into communities where our programs have had little market penetration. This includes rural areas, where SBA offices are often located several hours away from communities in need.

The most recognizable service SBA provides small business is financial assistance. Last year, a record number of small businesses turned to the U.S. Small Business Administration for credit assistance, producing a 29 percent increase in the total number of loans backed by the Agency in FY 2003, including sharp jumps in the number of loans to women, minorities and veterans. The overall increase in loan approvals under the SBA's three major loan programs came to 29.8 percent, reflecting an increase from 59,563 loans in FY 2002 to 76,465 loans in FY 2003.

These loans demonstrate our commitment to meeting the unique financing needs of small businesses everywhere, and the impressive increase we have posted for the past year validates our approach to making smaller loans more readily available to the real job creation engine of our economy. By focusing on a smaller average loan size we are leveraging our resources to assist more small businesses and create more jobs. Based on statements from our borrowers, our financial backing helped the small businesses of America create or retain more than 526,000 jobs during FY 2003.

Ironically, our success in promoting these programs actually hurt us earlier this year, as SBA was forced to suspend its operations on our 7(a) loan program for a short time. A series of short-term continuing resolutions and unprecedented demand caused the program to run out of budget authority under the last Continuing Resolution. SBA reopened the program as quickly as it could, though we did place some restrictions on the program to keep it running until a more permanent solution can be reached. Let me assure you, Mr. Chairman, SBA did not, nor does it want to, close down this crucial program.

In our FY 2005 budget, SBA has requested a 30% increase for this program to $12.5 billion. In addition, SBA has proposed legislation to adopt a permanent zero subsidy rate on the program, allowing SBA to adjust fees based on demand and ensuring it will remain available to those small businesses seeking SBA financial assistance. The Agency believes this will allow the program to continue without the shutdowns that previously occurred.

The zero subsidy rate will put the 7(a) loan program in line with our other major financing programs (504 and Small Business Investment Company (SBIC)). This subsidy rate is a result of improvements in the program, management of the program, as well as development of the econometric model. The two year fee reduction will expire at the end of FY 2004 and the fees are scheduled to return to their previous statutory level. The resumption of the statutory fee level will result in savings of nearly $100 million to the taxpayer, and also allows for a program that will be able to meet the demands of small businesses without being dependent on appropriations.

SBA has requested $4.5 billion in lending authority through its 504 program with no subsidy cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, has always had job creation as a program goal. SBA has taken steps to increase small businesses' access to 504 loans by encouraging competition and streamlining processing. In 2003, this program's total financings accounted for almost $8 billion in projects.

The SBIC program also provides much needed capital to entrepreneurs. With an average investment size of about $600,000, and a total fund size (including SBA guaranteed capital) of up to $698 million, SBICs currently provide over 58% of all venture capital financings by actual number – that's 8% of all financing dollars – and 64% of all seed financing dollars.

SBA is moving forward with the design and implementation of the new Rural Business Investment Company program, in cooperation with the Department of Agriculture, which will expand access to venture capital for non-farm rural businesses. In FY 2003, SBICs reported investing $871 million -- 35% of all financing dollars – in 588 different small businesses located in non-metropolitan areas (the program does not have a "rural" definition). And of those investments, $420 million was invested in 404 small businesses in low-income non-metropolitan areas – supporting rural communities throughout the country. SBA expects these levels of investments to remain about the same this fiscal year. All together, that is real stimulus, going to inner cities, rural markets, and struggling communities across America.

During the course of SBA's Microloan program's 12 year history, the private sector lending community has recognized that micro-borrowers are creditworthy and that they represent substantial future growth opportunities. As a result, private sector lenders are far more willing to lend to very small and to start-up businesses and are able to offer more competitive interest rates than SBA's Microloan intermediaries. SBA should not be competing with private sector lenders interested in developing this market, and has not requested funding for this program in FY 2005. The well established 7(a) program provides an adequate incentive to lenders that feel that risk mitigation is required to make smaller loans. In FY 2003, the 7(a) program made over 23,000 loans under $35,000, while the Microloan program only made 2,442 loans in that same period.

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

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

The President's Management Agenda requires SBA to continue striving for the most effective and efficient means of serving our Nation's small businesses. In doing so, SBA believes it can provide the full range of technical assistance needed by America's small business entrepreneurs more efficiently through our core infrastructure of Women's Business Centers, Veterans Outreach, SCORE chapters, Small Business Development Centers, and our network of field offices. With over 1500 locations nationwide, SBA and these resource partners are in a position to deliver the technical assistance small businesses require. SBA will continue to make more of its resources available to hard-to-reach communities by moving materials online and stationing permanent SBA employees in rural communities. Examples of this include SBA's establishment of post-of-duty in rural Maine and two hard-to-reach towns in Alaska.

We believe we can help more small businesses by utilizing our core programs that have a nationwide infrastructure and can reach more customers more effectively. Some of SBA's technical assistance programs did not receive funding in FY 2003, yet SBA continued to provide small businesses with the assistance they needed. It is often said that access to information is the key to small business success.

SBA will continue the implementation of its transformation efforts. I have spoken with many of you personally about the importance of transformation to SBA's future success. These efforts are crucial to the Agency's continued relevance in its second half-century.

I have testified that SBA needed to change the way it delivers its services to its customers – America's small businesses. In recent years, SBA's program delivery has changed so dramatically that SBA now works principally through its lending and other program partners to provide products and services to small businesses. SBA is now re-aligning its resources, including personnel, with this changed business practice using many of the financial industry's best practices. Through transformation, SBA is shifting field office efforts from administrative functions to more direct relationships with customers and resource partners. SBA's field offices are using outreach, marketing, and customer and resource partner relationship management to ensure that they know and meet small business needs.

All of us at SBA are quite proud of the Agency's legacy of achievement. Many businesses with household names today received SBA assistance in their formative stages. Who knows which of

tomorrow's industry leaders are today receiving their 7(a) loans, their government contracting opportunities, or their counseling through SBA's programs and services.

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

We are committed to doing all we can to make sure those entrepreneurs receive all the assistance the Agency and its employees can provide. But SBA cannot do this alone. We will continue to work together with you, our Congressional partners, and all of our resource partners to ensure that SBA continues to assist small businesses into its next half-century.

Written Testimony for the

"ACCESSING CAPITAL AND BUSINESS ASSISTANCE: ARE CURRENT PROGRAMS MEETING THE NEEDS OF RURAL SMALL BUSINESS?"

Senate Small Business Committee Field Hearing

Senator Michael Crapo, Chair

Coeur d'Alene, ID

16 February 2004

Submitted by:

Dr. Chris W. Busch
3100 Lost Creek Lane
Ronan, MT 59864
406-676-0020
cwbusch@aol.com

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs are key for the future of small businesses in Idaho and other rural states. The Small Business Administration (SBA) has statutory responsibility for oversight of these two Programs.

Technology-based small businesses are vital sources of high quality job creation in Idaho and throughout the USA for the 21st century. The SBIR and STTR Programs are now the largest source of seed capital available for technology-based small businesses. Together, these Programs provide over $2 billion annually to small businesses throughout the country.

Idaho SBIR and STTR Program winners include small businesses from across the state. They include university and National Laboratory spin-offs, rural Idaho enterprises, and more. Idaho small businesses currently capture about $3 million annually, but there is an achievable upside potential of $10 to $20 million annually. This capital influx would be very significant for high quality job creation and economic development in Idaho.

Yet, SBA is giving low priority to these two important Programs, compromising their future integrity. I urge Senator Crapo to take action at SBA, especially in the areas identified below.

The SBA Office of Technology that is buried deep in the SBA organization administers the SBIR and STTR Programs. The importance of technology-based small businesses

and the critical seed capital provided by the SBIR and STTR Programs makes it essential that the SBA Office of Technology have higher prominence and priority in the SBA organization.

In addition, the SBA recently removed the Assistant Administrator for the Office of Technology who has been with the SBIR and STTR Programs for more than 10 years. This person was a highly dedicated leader who enjoyed the respect of the small business community, agency SBIR/STTR Program Managers, and other SBIR/STTR Program advocates. SBA has not provided a reasonable explanation for his removal.

To make matters worse, the new Assistant Administrator for the SBA Office of Technology has virtually no experience with or knowledge of the SBIR and STTR Programs. This will severely limit his ability to provide required SBIR and STTR Program oversight.

The changes in leadership at the SBA Office of Technology come at a time when the SBIR and STTR Programs are under attack from several quarters. First, the venture capital community has launched a major offensive against these two Programs. Present SBIR/STTR eligibility rules require that small business concerns be owned (51%) or controlled (by the board of directors) by individuals. Others (including venture capitalists) can own the remaining 49% of the business.

However, venture capitalists are lobbying hard to have the eligibility rules changed so that businesses that they (the venture capitalists) own and/or control would be eligible for SBIR/STTR competition. This dramatically goes against both the letter and spirit of the SBIR and STTR Programs. If the venture capitalists succeed, businesses they control will capture an increased part of SBIR/STTR resources. And small businesses in rural states will have less access to these precious resources.

Other current challenges to the SBIR and STTR Programs come from some of the participating federal agencies that are on the threshold of breeching the SBIR/STTR Program rules in implementing the Programs at their respective agencies.

Now is the time for increased vigilance of the SBIR and STTR Programs by SBA in carrying out its statutory oversight mission for these Programs. It is clearly NOT the time to remove dedicated and seasoned personnel from these Programs, and replace them with those with perhaps good intentions, but little appropriate knowledge and experience.

Senators Enzi (R-WY) and Burns (R-MT) sent a letter to Hector Barreto objecting to the personnel changes at the SBA Office of Technology, and it is attached to this testimony. I strongly encourage Senator Crapo to send a similar letter to Hector Barreto. I will be happy to provide more background material on the subject if you wish.

As another indicator of SBA's low priority for the SBIR and STTR Programs, the FY 2005 SBA budget zeros out funding for the Federal and State Technology (FAST)

Partnership Program, and for the Rural Outreach Program. These are aimed at enabling states to provide high quality assistance to small businesses that wish to compete in the SBIR and STTR Programs.

SBA clearly IS NOT meeting the needs of rural small business, especially in carrying out its mission of providing oversight for the SBIR and STTR Programs!!!

A note of explanation about my affiliation: I am a consultant to the Idaho EPSCoR Program at the University of Idaho. I have been involved in SBIR outreach and advocacy activities for the past 10 years or so, including in Idaho, Montana and Wyoming. I currently live in Ronan, MT.

Christopher Manning, President
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Troy, ID 83871
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email: chris@appl-tech.com

16 February 2004

To Whom it May Concern:

The first point of my comments is to bring to attention the impressive success of the Wyoming state government in fostering SBIR participation by small businesses in their state. A crucial step in this excellent program was the unambiguous backing of Governor Geringer. I have attached viewgraphs in PowerPoint format that were provided by Dr. Chris Busch. In short, they show an exponential increase in SBIR funding to Wyoming businesses resulting from state-level efforts to improve participation. Idaho participation in SBIR and STTR has lagged generally behind Wyoming, in spite of the larger population here. A similar state-level initiative in Idaho would enjoy a large return on investment. The State's investment need not be monetary, particularly in these difficult times.

Perhaps Governor Geringer had an affinity for the SBIR program because of his background as an engineer, which probably stems from a natural interest in technology. His decisive backing and the resulting Wyoming participation are far more important than the direct impact of millions of dollars of Federal funding. This funding goes to capital-starved small businesses that are a key source of job creation. The funding has a much better multiplier effect than many other Federal expenditures. The value to Wyoming will persist for many years.

One of the most important results of SBIR participation is the multiplier effect of job creation by small technology businesses. The State of Idaho makes a substantial investment in students via the University and College system. The return on investment in higher education is undoubtedly good, but the return would be increased substantially by keeping more of the graduates in Idaho where they could create technologies to complement Idaho's natural resources. The efforts of engineers can also create jobs for those not fortunate enough to have access to higher education. These engineers would also contribute to the tax base as my company has. Unfortunately, there are very few jobs in Idaho, particularly northern Idaho, for engineers and other technical graduates.

My company is very fortunate to have been the recipient of several STTR and SBIR awards. We were able to sell into commercial markets roughly $500,000 of scientific instrumentation as the result of one Phase I STTR award from the National Science

Foundation. Over the years, we have employed at least 20 different University of Idaho students, who were able to learn many valuable lessons on the job. With some luck and perseverance, we may be able to provide enduring employment for 10 or more people in a rural part of the state.

Unfortunately, participation by Idaho small businesses in the SBIR and STTR programs is relatively low. Federal R&D funding to small businesses in Idaho is about ¼ of the national average. The problem is circular. Without Federal R&D funding, Idaho businesses are unlikely to be competitive in the program with well-funded companies in states like Massachusetts, Maryland, Alabama and Virginia. These are states in which the per capita Federal R&D funding to small businesses is 15 times, or more, greater than in Idaho. The Wyoming experience has shown that outreach to small businesses can improve participation in the SBIR and STTR programs. It is important for the future of Idaho employment that participation be improved.

There are many threats to the participation of rural small businesses in the SBIR and STTR programs. In particular, changes to SBIR rules that would allow venture capital-controlled companies to compete against rural small businesses will lower award rates in Idaho. The loss of Maurice Swinton from his SBIR post at the Small Business Administration has materially affected the situation. Mr. Swinton was a seasoned hand in the administration of the SBIR program and his loss is detrimental to rural small businesses.

SBIR support programs like those at the University of Idaho, Boise State University, and Montana State University are invaluable to the participation of rural small businesses. Coaching and other support provided by these programs are critical to making it possible for small rural companies to compete against the SBIR houses in other states. Further funding of these programs would be very beneficial to SBIR participation of rural small businesses in Idaho.

Sincerely,

Christopher Manning, President

○