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SMALL BUSINESS AND ENTREPRENEURSHIP IN ARKANSAS: ACCESS TO CAPITAL AND SERVICE DELIVERY

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 19, 2004

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SMALL BUSINESS ASSISTANCE IN ARKANSAS: ACCESS TO CAPITAL AND SERVICE DELIVERY

THURSDAY, FEBRUARY 19, 2004

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

The Committee met, pursuant to notice, at 9:30 a.m., in the Reynolds Business Center, Room 350, University of Arkansas, 2881 S. University Avenue, Little Rock, Arkansas, Hon. Mark Pryor presiding.

Present: Senator Pryor.

OPENING STATEMENT OF THE HONORABLE MARK PRYOR, A UNITED STATES SENATOR FROM ARKANSAS

Senator PRYOR. Well, it looks like most everybody is here, maybe one or two that will come in in a few minutes. First, let me go ahead and call the meeting to order as the Chairman of this field hearing for the Small Business Committee of the United States Senate.

I am on the Committee in Washington, and you know as well as I do how important small business is to this country, to this economy and certainly to this state. There is no doubt about the fact that small business and agriculture really is the backbone of Arkansas' economy. We have some great Fortune 500 companies here, we are proud to have them and very proud of what they do, but small business really is the backbone of Arkansas' economy.

Before I get going, let me thank a few people. First, of course, is Senator Olympia Snowe of Maine who is the Chair of this Committee. She graciously allowed this to happen, and also sent Gregory Wach, one of her staff members, to participate. Kevin Wheeler is here as well from the Committee staff, and we appreciate Kevin and Greg being here. Senator John Kerry could not be here today. I don't know where he is today. I'm not sure he knows where he is today. He is out in other parts of the country doing what he is doing, but he is actually what they call the Ranking Member of the Committee. He is the leading Democrat on the Senate Committee on Small Business and Entrepreneurship.

Also, I have to thank UALR. They have been so fantastic to let us use their facility and just really rolled out the red carpet for us. I mean everything from food to just all the logistics, whatever we needed, they have been fantastic, and the Arkansas Small Business Development Center. They have just been great. They have just been really accommodating and very, very helpful in every way.

Janet Roderick, Laura Fine, who I used to work with her husband, Milton Fine. Jennifer Bonds, John Harris, and Kim Fox and Sandra Vail have all been extremely helpful, and a lot of other folks here on campus.

Let me just run through some opening comments, and just say good morning to everybody, and I want to thank everyone for being here at the UALR Reynolds Business Center. I am proud of this facility, because the Don Reynolds Foundation and UALR worked together to make this a reality, and it is just going to do nothing but help UALR and help Arkansas businesses grow. It is just fun to watch this unfold.

The witnesses, we're going to go through their names here in a minute, but we really, really appreciate all of you being here, taking your time and working with us. I know you put a lot of work into being here. You have had to carve out quite a bit of time and effort on your schedule. Also for everybody else that is in the room that is just here to watch and listen, I want you to feel like you can participate in the sense that certainly we look forward to your comments, and it would probably be most helpful if you could write down your comments, maybe e-mail them or fax them to us.

We are going to leave the record of this Committee hearing open after we adjourn today. We are going to leave it open for several days and allow people to send in their comments and send in follow-up thoughts, etc. All that will be made part of the record and will be given to the Small Business Committee. What we are doing here is really taking the Arkansas business community as it reflects the national business community, and taking these good ideas back to Washington for people there.

You know, one thing I have noticed is that we find ourselves in a sluggish economy. We all know that. For the last 3 years we have had some ups and downs in this economy. It is an economy that does not have much job creation. That is really one of the things that you keep hearing people talk about is the lack of jobs that are created.

I have not seen the statistics from the most recent month, but I know in December of last year, December 2003, this national economy, the entire economy when you net it all out, the national economy created 1,000 new jobs. That is not a lot of new jobs. A thousand new jobs nationwide is stagnant job creation for the economy.

We all know the statistics, there is no doubt that small businesses in this country and in this state actually create jobs. Last week we had a hearing in Washington, we had the SBA Administrator there. We talked to him about a lot of different issues, and now this is kind of a local follow-up. This is a time for you-all to have input. Your input is really critical to the process. I am going to say that I am concerned that the President's fiscal year 2005 budget does not serve small business in Arkansas or the Nation very well.

The Administration definitely claims that they support small business and want to help small business, but I think there is a time when there is rhetoric versus reality, and the Small Business Administration's budget is one of those instances where the reality

is that actually there are a number of cuts in the SBA programs. I think that is unfortunate. I oppose those.

In fact, last week one of the questions I asked one of the panelists was "At the risk of sounding like a political pollster, tell me, is the SBA, in your view, going in the right direction or the wrong direction?" All of them just lined up there, and they said, "It's the wrong direction," and they listed out the reasons why. I would like to hear from you on that.

One thing that has concerned me, we have had a number of questions and inquiries and even complaints about this, is the fact that the SBA has been consolidating some of its staff, and what they have done is they've cut out certain people in local offices. This is particularly true with liquidation efforts around the country. People that specialize in that in SBA offices, and they have downsized, and they have moved those jobs to Herndon, Virginia, which is in suburban Washington, D.C. I think that Arkansas, small businesses have had a significant reduction in the access to staff and expertise in the SBA office in Little Rock.

One of the problems with this so-called work force transformation is the way it was handled. Man, we have heard a number of complaints from the business community in Arkansas about the way this was handled. I can speak for Senator Lincoln and Congressman Snyder, and I know they have gotten it, too, because I have talked to them about it. You-all may know the story, and you may not, but a number of employees around the country, including some here in Arkansas, was basically forced out of the local office by giving them, I think it was, 7 days to respond to an offer. If they took the buyout, so to speak, they could not work for the government for 5 years. It really was coercion.

I have gotten e-mails and letters from not just here in Arkansas but from around the county I want to share with you later. I think that certainly we are going to see an adverse impact on the SBA in Arkansas, and the small business development centers will inevitably be impacted, I think, as well because of this budget.

Also, something that is a real concern is the 7(a) loan program. You-all know a lot about that. You know a lot more about it than most people do, but certainly the 7(a) loan program, the developments there are very troubling. The fact that they are increasing fees, they want to go to a zero appropriation budget. There are just a lot of things in that 7(a) program that is supposedly the flagship of the SBA administration.

It is very troubling to see the direction that we seem to be going. They are doing this in Washington all in the name of savings. You know, they say they are saving the taxpayer dollars. Well, I just don't really agree with that, because I think that when you can strengthen small businesses, that means they are hiring people, those people are paying taxes, those people are off the unemployment rolls, those families are working, they are buying cars, they are making mortgage payments, etc., and I just think that, you know, there's just a very positive ripple effect from the 7(a) program.

As well, I wanted to tell you that the microloan program has been totally eliminated under this new budget. This is something that is of special concern to me because Senator Bumpers actually

created that program, and he based it—you-all may know this—he based it on a program that was going on in Pine Bluff called the Good Faith Fund. You know, he took this local idea that was a good idea and brought it to Washington and reconfigured it a little bit, but, basically, introduced it to the SBA, and it has been a very successful program.

There are thousands and thousands of stories around the country about the positive impact the microloan program has had, but, unfortunately, in this budget, it is eliminated. We will talk more about that in a minute. I just think, given all the success that the SBA's had and all these programs and given the stimulative nature of these programs, these loans, these guarantees to our economy, and also the positive ripple effects that really help our economy and help our country, I just don't think it is wise to be cutting these programs at this time, especially given the state of the economy that we are in right now.

What I want to do, is I want to sort of get out of the way and introduce our first panel. What I would like everybody to do, if possible, we have about 2 hours here this morning, and what I would like to do, if possible, is have people, the panelists identify themselves and kind of say who they are and what they do. Also, try to keep your opening comments to maybe 3 minutes, 5 minutes maybe at the most.

I know some of you have submitted written testimony, which is great, it is already part of the record. We are going to include all that as part of the record. We want to try to keep our opening comments somewhat short and then have plenty of time for questions and answers and discussion.

If I may, I would like to thank everybody again for being here and go ahead and introduce the first panel. That's going to be Joe Watts, Keith Grimes, Janet Roderick, and Eduardo Gomez. Joe, if you don't mind going ahead and leading off for us, and, again, talk 3 to 5 minutes, and we'll go from there.

STATEMENT OF JOE DAVID WATTS, FORMER LIQUIDATION OFFICER, SMALL BUSINESS ADMINISTRATION

Mr. WATTS. Thank you.

Senator PRYOR. I am sorry, David, did I say Joe? I am sorry. David Watts. I am sorry.

Mr. WATTS. Either one. It doesn't make any difference.

Senator PRYOR. Okay.

Mr. WATTS. Well, I happen to be one of the lucky ones that was forced into retirement by the SBA. I was a former Liquidation Loan Officer.

Back on September 10, 2003, I received notification via Federal Express by the SBA that I was engaged in the systematic review of its programs and business processes. As a result, it became apparent, that some of the longstanding processes could be streamlined and made more efficient.

The SBA reviewed and concluded that the loan liquidation practices and oversight of this activity conducted by participating lenders is outdated, does not reflect the best interest of the lending industry, does not take full advantage of the current technology, and

costs too much of the per loan basis. I would like to see this being backed up, and I would like to know what this technology is.

The SBA targeted most everyone nationwide that spent at least 25 percent of their time doing liquidation activities and reassigned them to Herndon, Virginia, with the exception of Alaska, Maine, North Carolina, a few other states. This was based on an administrative cost allocation survey that everyone did back in April 2003. Not that this will make any difference, because I was the primary liquidation loan officer, and that was my function, and, you know, even though I didn't do it properly, this was still my function, and that's exactly what I did.

In a small office such as ours, we all wear many different hats. Of course, we all do different things on a daily basis. I don't keep time sheets on exactly what, however, I do fill in a lot of slots for different people.

The SBA offered early outs to some employees back on September 30, 2003. My counterpart, Ray Chappa, which was the other Liquidation Loan Officer, took the early out. He was coerced into taking the early out, like you did mention. That left me as the sole Liquidation Loan Officer, so I had to pick up his portfolios. After Ray left, that left me with in excess of 275 loans in various stages of liquidation.

The SBA requires us to purchase the loans, review the loans and all the documentations, and try to get them ready for purchase. Most of our lenders are small local lenders or small town lenders. We don't really have the major bank systems here in Arkansas. On December 2, 2003, I received my notification that I had been selected for reassignment to Herndon, Virginia, and had until December 15th to either accept it or decline. On December 15, 2003, I did accept the reassignment, but I did note on there that I did accept this under extreme duress for fear of losing my job.

On January 6, 2004, I notified the SBA that I had changed my mind and withdrew my acceptance and planned to retire. I wanted to work until January 30th to help get things cleared out before I left because the office was extremely shorthanded. The SBA would not allow me to do this. They said that it was because I was supposed to report to Herndon, Virginia, on January 20, 2004, and that I would be placed on inactive pay status effective January 20th. So, I retired on January 20th.

When I left, none of the files had been shipped, nor had they been notified, that the files could be shipped to Herndon as of yet. Since then, they had been notified the files could be shipped to Herndon, but the files are still being held in limbo, and they're waiting to be shipped. Even if they could be shipped, it's going to be quite a while before they can be shipped to Herndon.

As of right now, it's been over a year since the Arkansas district office has had a District Director. Linda Nelson had been the acting District Director and had done an extremely good job, but she has also been transferred to Herndon. The Arkansas district office has not had a Director for quite some time.

Senator PRYOR. Okay. Thank you. Like I said, I will follow up with some questions on that in a few moments.

Keith.

STATEMENT OF KEITH GRIMES, COMMERCIAL LOAN OFFICER, PINE BLUFF NATIONAL BANK

Mr. GRIMES. I am Keith Grimes with Pine Bluff National Bank. Senator, thank you for having me here today to comment on the recent changes in the staffing of the SBA and resulting effects of the SBA Lending Act, particularly on Pine Bluff National Bank.

Just to let you know, we were sort of caught unaware as to what was happening here. Just to tell you how that came about, I telephoned the SBA Arkansas regional office in January to speak with Mr. Watts on a loan we had in liquidation. I was informed at that time that Mr. Watts and Ray Chappa, the other gentleman in the Liquidation Department, had both retired and all present and future liquidations of SBA guaranteed loans would be processed through the new facility at Herndon, Virginia. The liquidation files in the possession of the SBA Arkansas regional office would be transferred to the National Liquidation Guaranty Purchase Center, and I will be informed at a later date by the staff at the center when they're able to accept my forthcoming purchase request on this particular loan.

I would like to comment just real quickly and commend Mr. Watts and Mr. Chappa. I see Jim Coffee and the rest of the SBA staff here at the Arkansas district office, how well they've helped us here, and I think that particularly in Jefferson County, it's helped our economy there.

Going on, I believe a delay in the processing on these liquidation loans will affect us in several ways. The first three, particularly affect Pine Bluff National Bank. We have interest that will have to be written off and we'll have to treat them as nonperforming assets. Our reinvestment opportunities will be limited through the guarantee not being fulfilled in a timely manner. Our delinquency rates will be driven higher.

The fourth thing, I believe is not only important to Pine Bluff National Bank and other lenders, but to the economy as a whole. Here in Jefferson County and Pine Bluff National Bank, I believe other lenders would be more hesitant to underwrite new SBA guarantee loan requests. This greatly affects us there.

Stating the obvious is Pine Bluff National's opinion that the interest of all parties affected would be better served by expediting the staffing of the National Liquidation Guaranty Purchase Center.

I would like to thank you again for letting us voice our concerns here today.

Senator PRYOR. Thank you.

Janet.

STATEMENT OF JANET RODERICK, STATE DIRECTOR, ARKANSAS SMALL BUSINESS DEVELOPMENT CENTER

Ms. RODERICK. Thank you. Senator Pryor, and representatives of the Small Business and Entrepreneurship Committee, I'm Janet Roderick, State Director for the Arkansas Small Business Development Center.

Senator Pryor, on behalf of the Arkansas SBDC, I'd like to thank you and the Committee for inviting me to testify at this important hearing. It's an honor for me to represent the University of Arkansas at Little Rock College of Business and welcome you to this fa-

cility built with funding from Donald W. Reynolds, an entrepreneur, and certainly he started out as a small business person.

The Arkansas SBDC is a premier provider of small business assistance in Arkansas. As you know, the SBDC program is funded by the U.S. Small Business Administration, the University of Arkansas at Little Rock, and six other University partners. Those University partners are Henderson State University in Arkadelphia, University of Arkansas at Fayetteville, University of Arkansas at Fort Smith, Arkansas State University, Southern Arkansas University and University of Arkansas at Monticello.

The Arkansas SBDC program has been in existence since 1979 providing management and technical assistance to small business. The program continues to contribute significantly to the economic impact in the state through the small businesses we serve each year. We are one of the few economic development programs that measure our impact. For example, in the past 5 years, our Arkansas small business clients have created over 4,000 new jobs. These small businesses have obtained over $200 million in funding for their businesses.

Senator Pryor, you can be very proud of the Arkansas SBDC. Each year, our economic impact, as measured by an outside consultant, has one of the most significant returns on investment of the taxpayer dollars in the nation. For every one dollar in Federal funds spent in the Arkansas SBDC, SBDC clients generated $4.86 in new tax returns. That's a good investment in any economy, any time I can put $1 in and get over $4 back in one years period of time, I believe is a great investment.

The SBA funding for the SBDC program nationally has remained at a level funding since 2000. Prior to that, the last SBA increase was in 1994. In 2000, the funding formula was adjusted, and approximately half the states received a decrease. We actually got a slight increase, $6,000. Not near the rate of inflation.

In order for the ASBDC to continue to provide services to the small business community, we have relied heavily on reorganizing, working smarter, using technology to deliver our services, and, of course, an increase in support and funding from our universities and banking partners.

Two examples of how the Arkansas SBDC has been working smarter are, first, the SBDC is one of the early adapters of the Internet and website utilization. With the assistance of Aristotle, a small business here in Little Rock, the SBDC recently redesigned our website to provide information so the small business would use it. In 2003, we had over 300,000 visitors. The most popular downloads were the feasibility workbooks, with nearly 26,000 downloads. Of course, "New Venture Guides" and "How to Start Your Business."

We also send out e-news bulletins, which are sent out electronically to people who have requested to be subscribers. One provides basic business information, government regulation updates, and details on upcoming training events. The other is a technology related e-news letter providing technology news, grant opportunities, and SBIR SBTR information. We continue to work smarter, as I mentioned, but we've also had to reorganize.

This is a map of our service areas. You can see that one service area has over 12,000 square miles to serve. At one time, we had twelve offices; now we've gone down to seven offices with our reorganization. At that same time, the universities and banks have come to the plate and helped us with additional funding. Our funding from the SBA has increased 4.1 percent in the last 10 years. Just the basic rate of inflation certainly has increased more than that.

Senator Pryor, our program is authorized nationally for $125 million. Yet, it continues to be appropriated at $88 million, which is level funding for the Arkansas SBDC. Arkansas universities and banks recognize the importance of small business assistance to the state. Where is the SBA? Thank you.

Senator PRYOR. Thank you.

Eduardo.

STATEMENT OF EDUARDO GOMEZ, OWNER, ANDINA CAFÉ & COFFEE ROASTERY, LLC

Mr. GOMEZ. Good morning. My name is Eduardo Gomez. I am a small business owner, and I guess my comments are probably most relevant to the microloan program.

Senator Pryor, representatives, ladies and gentlemen, good morning. I thank you for soliciting my comments. I'm proud to live in a democratic country governed by the rule of law where the government represents the will of the people and listens to them. I also want to thank UALR and the Small Business Development Center for hosting this meeting. I have had the opportunity to use their consulting services locally and have found them to be both available, professional, reliable and serious.

I was born in Colombia, South America. I am a naturalized U.S. citizen. I have a Bachelor's degree in Economics and a Master's degree in Social Work from the University of Wisconsin, Milwaukee. My wife and I recently celebrated 33 years of marriage. We have two grown children who are both college educated, married, and most importantly are good moral contributing citizens. We have two grandchildren. I came to Arkansas in 1983 as an International Marketing and Sales Manager with a multi-national corporation headquartered in Arkansas.

In the summer of 1988, due to corporate reorganization, my wife and I were faced with the decision of uprooting our then teenage children or staying in Arkansas. We chose the latter. In order to support our family, I started an export management company which exported U.S. manufactured products abroad. These products were commercial water systems. Our main market was in the Middle East. In August, 1990, when Iraq invaded Kuwait during the first Gulf War, I watched the undoing of our business with the rest of the world on CNN.

Although I had to find another job, the entrepreneurial spirit drove me to start another company some years later. This was about 7 years ago. This new business concept was a coffee shop and retail coffee roastery located in the river market district, which was then empty, and which the city wanted to use as a spark for the redevelopment of downtown Little Rock. A couple of years later, we

had to open a separate roasting operation in a different location to develop the wholesale side of our business, our third company.

When I was going to start my coffee shop, I needed start-up capital. I spoke to the SBA at that time, and was told that my new company lacked a track record to qualify for an SBA loan. At this time I wanted to borrow about $50,000. Although that did not deter me from my final objective, it did make the road quite a bit more difficult. Most entrepreneurs lack the capital to start a business. Many times the capital is not very much because the entrepreneur is willing to invest sweat equity, which usually far exceeds the amount of the small loan and which is probably more important to the long-term success of the business than any other single factor.

Based on my own personal experience, the entrepreneur's business acumen, his personal tenacity, discipline and sacrifice, are the most important predictors of success. The second predictor is probably knowledge of the particular business. The third is probably knowledge of the business administration principles in general. None of these criteria were used to determine whether or not I could qualify for this small loan. Instead, the criteria used were based on conventional thinking of what a lender considers the lending parameters for minimizing the risk with an ongoing business.

Let's face it, start-up capital is risk capital, but it can also be a doorway into the land of opportunity for those who are willing to make the effort. The question is how to invest in those who have the most potential for success. Someone said, "we become what we measure", and then traditional lenders are not set up to measure these types of parameters. Certain subcultures within the United States have actually recognized this and provide start-up capital through a peer managed system where business peers and mentors, not bankers, help each other develop new business opportunities. The assurance of payment is based on the personal commitment of the business person to his or her peers and on their own support and assistance to the business person. I have often thought that this could be somehow replicated in the community at large.

Small business start-up loans can be key to get the small entrepreneur started. They are a way in which a society can prime the productive capacity of some its entrepreneurial citizens. Maybe rather than eliminating them, we should consider how to make them more effective. Maybe if they were managed differently, they could be a way for society to invest rather than spend in its future. Thank you again for giving me the opportunity to make these comments.

Senator PRYOR. Thank you Eduardo.

Now, let me start by asking some questions. If it is okay, David, I thought I would start with you.

The SBA has said to the Committee in Washington, centralization has—the pilot programs, that is, have reduced liquidation time of loans to 49 days compared to an average somewhere between 252 days to 987 days. Now, you worked in liquidation loans every day, and that was one of your day-to-day responsibilities there. Do those numbers from the SBA sound right?

Mr. WATTS. No.

Senator PRYOR. Now tell me why not.

Mr. WATTS. I don't even know where they get those numbers from. There is no way, Senator, that you can have those kind of numbers. Once you put a loan into the liquidation status, once a lender tells you that this loan is going to liquidation status, if properly done, as you put the loan in liquidation status, then you send the lender a checklist of items that are going to be required by the SBA to purchase the loan. Then the lender puts all the information together, and sends it to you.

Once you receive that, you have to do a complete review of it, and you hope that the lender has sent you everything that you have requested. Which nine times out of ten is not going to be a complete package. Then you have to go back to the lender and ask for additional information. You're sitting there waiting for additional information to get back to you, and the clock is still ticking.

Once you have received the complete packet, then you have to go through the purchase package, you have to get legal, you have to run it through legal, get their approval on it, then you have to go through and get approval authority on it. All that takes approximately 2 weeks. Then you can do the actual purchase. The actual purchase process can be done in a day or so.

It's a long drawn out process. It's just a matter of how much time it takes the lender to get you all the necessary paperwork.

Senator PRYOR. Yes. In other words, each situation is different.

Mr. WATTS. Each situation is different.

Senator PRYOR. Yes. Do you know what your average was in the Little Rock office?

Mr. WATTS. I would say the average was roughly about 150 days.

Senator PRYOR. Let me also ask this. The SBA also in this Committee hearing last week said the lenders do most of the liquidation already and that the employees were mostly obsolete and that the service to lenders would improve and service to small businesses would not decrease with this consolidation. What is your view of that?

Mr. WATTS. Well, the lenders are required to do the liquidation. The SBA has to review all the documents the lender submits, and do the purchase. But the lender submits all the liquidation information that the SBA requires.

Senator PRYOR. Yes.

Mr. WATTS. The SBA people are not obsolete.

Senator PRYOR. Let me, if I can, jump to Keith on a related question. First, if I may, could you characterize your bank, for the record, as small, large, urban, rural?

Mr. GRIMES. It's a small community bank.

Senator PRYOR. Okay. Tell me in your view, if you have heard Mr. Watts' answer there, if the quality of service and all would improve and the workload would improve or increase or decrease for your bank if you are expected to do all the consolidation. Could I hear your comments on that?

Mr. GRIMES. Yes, sir. First of all——

Senator PRYOR. I mean liquidation. I'm sorry.

Mr. GRIMES. Yes, sir. Sure. I would like to say I completely agree with what Mr. Watts just said in response to your answer. Second of all, answering your question, I don't see how it would be any

more efficient to centralize that out of state as far as liquidation is concerned.

We had a staff here in Arkansas that was familiar with the area, with the lenders, with the process, and I believe that each region would be different throughout the country as to how you have to liquidate collateral sometimes in these loans, and sometimes you may get 10 cents on the dollar in Jefferson County, where you may get 50 cents on the dollar around Dallas.

How does somebody in Herndon that knows nothing about Arkansas and the economy going to know how to work with that? I don't believe it would be—I believe at least on our end, the banks with us liquidating, completing this, it would be much less efficient for us to do that.

Senator PRYOR. Do you have the staff to do that right now.

Mr. GRIMES. It's me.

Senator PRYOR. It is you.

Mr. GRIMES. Yes.

Senator PRYOR. Also, have you—from your testimony, I was not quite sure, but have you had any contact with the Herndon office yet?

Mr. GRIMES. No, sir. I went ahead and let them know that my package would be coming some time soon on this particular loan, that I have in liquidation. Other than that, I haven't heard anything back—well, I take that back. When I e-mailed the Herndon office, they acknowledged that they had received my e-mail and that they would let me know when they were ready for me to send in the purchase request.

Senator PRYOR. All right. Let me ask you if you know, and you may not, about the Herndon office for the SBA, are they going to assign certain people to Arkansas, and will you be talking to the same people all the time?

Mr. GRIMES. That, I don't know. I know Linda Nelson is there, I believe, but I don't know whether she was going to be assigned to Arkansas, and whether she would be familiar with Arkansas. As far as a particular person would be over a particular region, I do not know. They haven't communicated that to me.

Senator PRYOR. Have they communicated anything to you about the Herndon operation?

Mr. GRIMES. No, sir. Nothing whatsoever.

Senator PRYOR. All right. If I may, Janet, I would like to jump to you just for a second here, a few questions.

That is, I know that under this proposed SBA budget, the President's proposed SBA budget, they are cutting funding for SBDCs by a million dollars. They are cutting women's business center funding by 500,000, the 7(j) technical assistance also has a cut. There is level funding for SCORE and veteran's outreach, which just based on inflation, could be considered a cut, and they also are reducing budgets for staffing and resources at the district offices.

Saying all this, then at the same time, the SBA has come out and they've said:

> "The SBA believes it can provide a full range of technical assistance more effectively by using its core national delivery programs. The agency will work through its primary infrastructure of women's business centers, veteran's outreach, 7(j) technical assistance, SCORE chapters, and small business development centers and district offices to meet the needs of all small businesses."

I was wondering if you have any comments on, again, the direction the SBA is heading under this White House proposed budget, and if you have any comments on how you think that will actually work here in Arkansas.

Ms. RODERICK. Yes, sir, I certainly do have opinion on that. The SBA has on a national basis, been trying to get everybody to, as far as the technical assistance program, to work harder with less money, and deliver more numbers, not necessarily impact.

One of the goals seems to be to say if you shook hands with someone, then you had an impact on their small business. Here in Arkansas, for example, our SBDC spends an average of about 11 hours with the clients because that's where we believe we can have some impact. We can help them put their loan package together, we can help them access other capital. If they want to expand, we can help identify those markets. If you're asking people to work faster and do more numbers, you're certainly not going to have the impact.

Also, about the veterans' program, I have a particular soft spot in my heart for that program. It's not here in Arkansas. It's located in another state. We get referrals occasionally out of Texas. The referrals are round about, and I resent that. I don't believe that our veterans deserve to get a phone number to call a phone number to call a phone number to finally call somebody else to get a contact to provide assistance for them.

The veterans' program, because it's underfunded, has simply not been effective for our veterans here in Arkansas. It's just given them more numbers to call and less response.

Senator PRYOR. One concern I have with the consolidation and the cutting of resources is it is almost as if maybe SBA is taking a one-size-fits-all approach. They think maybe they can consolidate it in different offices, and whatever, and take employees out of the local community to try to do that. My experience is that businesses are very diverse, their needs are very diverse, what they are doing is very diverse, and it seems that we may be losing some of that, for lack of a better term, kind of finesse in helping businesses if we just consolidate.

You mentioned that you spend about 11 hours per business, or something like that.

Ms. RODERICK. Yes.

Senator PRYOR. That's great. I think that is a lot of time. Do you have any comments on this one-size-fits-all concept?

Ms. RODERICK. Well, you're exactly right. The SBA central office has been trying to give the impression that one size does fit all. Certainly, as you listen to the bankers' testimony around here and you listen to the small businesses who are going to testify, you'll see the wide differences of clients we serve and the small businesses that we serve throughout the state of Arkansas. No, one size does not fit all, and you're absolutely right in your perspective of what you envision.

I would like to make one statement, too. It may sound like I'm bashing the SBA, and I certainly don't mean to do that. We have had the best district office to work with here in Arkansas for years, and we work in partnership with them. We go out and provide lender training, and we provide opportunities for businesses

throughout rural Arkansas and access the expertise that's available at our district office.

With the drastic cutbacks that they've had, it's becoming more and more difficult for them to get out and work with our individual bankers throughout the state and to work in partnership with us. We have an extremely high success rate in working with our businesses to obtain capital. That's due in great deal to the partnership we have with this district office.

Senator PRYOR. Good. One last thing, you had a little statistic in your comments that you said for every dollar spent there is—one dollar equals four dollars. Tell me how that works again.

Ms. RODERICK. Okay. We have an economic impact survey that's conducted. We ask that to be conducted every year for our Arkansas businesses. We report how much money we put into the consulting, how much money goes into training, what our total budget is, as some of the measures for the economic impact. One of the measures is how many Federal dollars go into our program. Then the private consultant from Mississippi surveys our clients since it's self-reported. They report how much they paid in taxes.

For example, in the year 2001, and how much did they pay in taxes in the year 2003. They indicate whether the SBDC helped them or not. If they believe that we did not help them, we don't count their statistics. 95 percent to 98 percent always say we've been extremely helpful. We then measure what their taxes were one year and what their taxes were the next year, how those have increased, and then how much we spend in Federal money in this program and how much they've paid in additional taxes.

Senator PRYOR. That is good. Eduardo, I do have a question for you, and that is, how many employees do you currently have?

Mr. GOMEZ. I currently have about seven employees.

Senator PRYOR. You know, it seems to me that what you were saying earlier about risk and the need for capital in small business, even your experience, underscores the need in some cases to have the government there to stand behind some of these loans, too, because some of these loans are risky. Using the proper, you know, financial criteria, a lot of those loans can be made if the government's standing behind those loans.

I know that you have had a big impact on the River Market, and you were one of the first tenants down there, weren't you?

Mr. GOMEZ. I was the first.

Senator PRYOR. Yes. I remember when you were down there kind of going solo, and it was a construction zone down there. I remember that well.

I just want to thank the panel for being here. We are actually going to change panels. We are going to try to move along, and I am going to take about a 3 or 4 minute break just to let you-all get set up and get situated.

Mr. WATTS. Senator Pryor.

Senator PRYOR. Yes.

Mr. WATTS. Could I have about 30 more seconds.

Senator PRYOR. Sure. Go ahead.

Mr. WATTS. I've got one other comment I would like to say.

My largest concern, and this is a real major concern, is what is going to happen to the Arkansas district office of the SBA? Also the

small business community and the SBA lenders. As it stands right now, the Arkansas district office has 13 employees that are currently left. Nine in a professional position, and four in a clerical position. One of those professional positions is going to retire in April or May of this year, which is going to leave 12 SBA employees. Rumor has it that the loan division is going to be the next division that's going to be getting their notices, and that's going to be coming up real soon.

They are going to try to set up two processing centers; there's going to be one in California and one in Kentucky. If that happens, you're going to lose four more professional positions. That's going to leave eight people left in the Arkansas district office.

Now, do you honestly and truly think that they're going to keep an Arkansas district office? I mean, can you honestly sit there and tell me that they're going to keep an Arkansas district office, per se?

Our office worked hard over the number of years that I worked for the SBA to gain the trust and admiration of the lending community here in this state. We were able to provide close personal service to these lenders. I must remind you, this is Arkansas; this is not New York or Washington. It's my opinion that this is only going to alienate the local and small lenders from the SBA.

That's all I've got to say.

Senator PRYOR. Well, thank you. I think I share those views with you. That is one of the reasons we are here. That is one of the reasons we wanted you here, because you have got that experience out in the trenches. We appreciate your time and your commitment that you gave to not just this country, but certainly this state and all of our communities.

Let's switch the panels. Thank you for your time.

[Recess.]

Senator PRYOR. Okay. Let's move forward. If I may introduce this next panel, we have the same type set up. If we could do maybe 3 to 5 minutes, and then I will answer any questions. I guess, Daniel, you are going to go first. Is that right? Is that okay with you, Daniel, if you go first?

Mr. BLAIR. That's fine.

Senator PRYOR. Why don't you go first, introduce yourself, talk a little bit about what you do, give your comments, and then let's just work our way around the room.

STATEMENT OF DANIEL BLAIR, GENERAL MANAGER, DANIEL UTILITY CONSTRUCTION, LITTLE ROCK, ARKANSAS

Mr. BLAIR. I'm Daniel Blair. I'm the General Manager for Daniel Utility Construction here in Little Rock. It's a second generation family business. My parents started contracting in 1964. My comments are relative to the 7(a) program.

Some brief history is our industry and company experienced a lot of growth in the 1990s. Then following the bubble burst in 1999, there's been 3 years of pretty serious decline, following generally to our general economy. We were hurt pretty bad. The industry was hurt pretty bad. In 2 of those 3 years, we were fine. Had a great year, in fact—in 2000, 2001, 2002. Last year was a challenge. We laid off about 50 employees, and really just waited for the economy

to start improving. Around the fourth quarter of last year, we started seeing that, and as the economy was improving, so did our outlooks for 2004.

That was when I actually approached Mr. Wall's company about helping us to consolidate some debt and help our cash flow problems. As you move from a period not doing extraordinarily well to growth opportunity, cash is going to be a problem. So we hustled around.

I was informed that the program was going to change after the first of the year. We spent some time right between Christmas and New Years's trying to get this in place, and everything seemed to look good. As of the middle of January, we were informed that no fundings were going to happen. We didn't know what the deal was. The people that were helping us didn't know what the deal was. Then they came back and said, "Okay, we have a lower debt maximum that we can deal with." Basically, the loan as we applied for it, was denied.

They did offer us a different package that wasn't acceptable to us. As it stands for me right now, we really expect 2004 to be a record year for us in terms of growth and receipts and income. I expect that I'll place about 50 new employees.

Senator PRYOR. Fifty?

Mr. BLAIR. Yes. That's about what I have now. We really expect to see a tremendous year. It's going to be a real challenge for us from a cash flow standpoint to be able to achieve that without this help.

The rough numbers for us were decreasing our cash flow needs from around $40,000 to about $10,000, and stretching the loan out over a longer period of time, but it was just really going to give us a break near term.

I suspect that because the economy is improving, there may be perhaps thousands of people like me, tens of thousands, around the country that are in similar patterns. Ready to take off, and, yet, are challenged with some of the economic issues that we've had in the last few years.

Senator PRYOR. Thank you.

Mr. Walls.

STATEMENT OF C. SAM WALLS, CHIEF OPERATING OFFICER, ARKANSAS CAPITAL CORPORATION

Mr. WALLS. Thank you, Senator, and thanks for the opportunity to talk about something that I believe has enormous importance to the Nation. It's not just Arkansas, but it's across the Nation.

I am the Chief Operating Officer of Arkansas Capital Corporation. It is a private non-profit business development corporation that on occasion is the largest SBA 7(a) lender in the state. Like the U.S. Small Business Administration, Arkansas Capital Corporation was formed during the 1950's to assist small businesses with long-term financing options that were going unmet in traditional capital markets. Also, like the SBA, our parallel missions continue to this day.

In Arkansas, as in numerous other states, small- and medium-sized businesses had the highest potential for growth of any sector of our economy. Although improving, the current economic climate

continues to be a very difficult one for small businesses to successfully navigate, it is in that light that Arkansas small business can ill afford an underfunded small business loan guarantee program.

Let there be no misunderstanding. Arkansas Capital Corporation fully supports the SBA's mission and understands the agency's importance and impact on Arkansas' business community. We cannot afford another lending holiday or further cuts to this vital program. It is imperative that Congress and the current administration agree to fully fund this economic development stimulus program.

In order for the SBA to fulfill its mission, it must have partnerships. It must have the SBDC, it must have lenders, and it must have borrowers who act as good partners with the agency. There are certain rules about partnerships, and one of those rules is good partners do not do things that harm their partners. It is extremely important that we understand where the agency is headed, what its long-term plans are, because lenders are businesses, and our borrowers are, obviously, businesses, and businesses must plan in order to know how to conduct their affairs in the future. Much of the disarray that the agency exhibits today is very difficult for all of us to continue to count on our relationship with it to benefit the small business community.

Senator PRYOR. Thank you.

Mr. WALLS. Thank you.

Senator PRYOR. Mr. Knight.

STATEMENT OF PHILIP KNIGHT, EXECUTIVE VICE PRESIDENT, SMALL BUSINESS LENDING, ARKANSAS NATIONAL BANK

Mr. KNIGHT. Thank you, Senator Pryor. I appreciate the opportunity to meet with you today and speak to you on current and proposed changes to the SBA.

Let me begin by introducing my bank and myself. My name is Philip Knight. I'm the Executive Vice President over small business lending for Arkansas National Bank. We're a locally owned community bank in Bentonville, Arkansas. We consist of nine branches at nearly $500 million in assets, and we serve Benton and Washington Counties primarily.

For the past 2 years, ANB has been the leading SBA lender in Northwest Arkansas, and in fiscal year 2003, ANB made 22 loans for $7.8 million. Thus far in the first 4 months of 2004, we've made nine loans for $2.3 million. This made ANB the fourth in loan volume and third in dollars in 2003, and fourth in loan volume and fifth in dollars currently throughout the state of Arkansas.

At ANB, we're dedicated to helping small business. The recent actions taken by the SBA have given us reason for great concern. The following will summarize some of these concerns.

The stability of the SBA 7(a) loan program, we felt like, is paramount. Caps and suspensions of lending are detrimental to the overall program goals and the credibility of economic development and stimulus. They cause lending partners and small business constituents to lose confidence in the SBA and its overall viability. Will it be there when we need it, is the question. If we can't count on it, why try to keep up to date with the training required to be SBA savvy and why market it to our customers.

Personnel reassignments have caused delays in the liquidation process, without any indication from the SBA as to when case resolution will resume. There's been no communication from the SBA since the local Liquidation Officer, who we now know, Mr. Watts, was forced to retire, and loan files were supposedly forwarded to a central office right in the middle of the process. The word's out that the SBA no longer wants to discuss the liquidation cases, and it's discouraging their personnel from talking to us on the phone. We're to be directed to a website for assistance.

Not only is this not very good customer service, it creates an adversarial relationship and will ultimately cause a lack of confidence in the guarantee process and will no doubt cause a lender to think twice about making future SBA loans. Again, the result will be less capital available for Arkansas small business.

SBA transformation plans, apparently, include moving all loan processing functions from our local district offices to a central office or expanding the 7(a) program into an SB express with reduced guarantees for the lenders. Neither option is good for small business, because it will most likely result in fewer loans being made, less capital being available, again, for small business.

The SBA has not communicated with its lending partners, especially the local community banks. I read the testimony of Mr. Bredsoe that said that they had talked to banks. I would suspect if they did, it was not the small community banks. We have to rely on third parties to keep us informed on what constantly is changing in the SBA. The SBA did not seek our input on reduced guarantees. Most small banks are not willing to accept that much risk on these types of loans.

The Arkansas district office loan personnel provide daily assistance, both lenders and applicants. They're available to answer any technical questions, as well as provide advice as needed, often conferring with us on eligibility issues, on structuring of loans, and other specifics, and on particular complex loan issues. Not everything fits in a black and white box. They conduct training for lenders and informational seminars for clients. Without their help, many lenders would be unwilling to participate in SBA lending and will certainly be unwilling to accept the higher risk of flying solo with a reduced guarantee.

SBA district personnel talk to and meet with small business owners and potential owners every day. Without them, these people would be left with no resources available locally and would be directed to a website. Again, not very good customer service. Nothing can substitute for a friendly face when you're looking for help.

Senator what would your constituents think if they had no way to contact you for assistance other than a website? Not everyone uses the Internet. While there are a multitude of other issues surrounding the current proposed changes to the SBA including the present lowering of the maximum loan size to 750,000 and denying the use of piggyback loans, I do appreciate the opportunity to address these changes that I believe will have a definite negative impact on the small business community in Arkansas and those lenders who try to serve it.

Senator PRYOR. Thank you.

Kevin.

STATEMENT OF KEVIN HESTER, EXECUTIVE VICE PRESIDENT, FIRST STATE BANK, CONWAY, ARKANSAS AND DIRECTOR, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEE LENDERS

Mr. HESTER. My name is Kevin Hester. I'm with First State Bank in Conway, Arkansas, and I would like to thank you for the opportunity to testify today.

We've been involved in the SBA program our full 5 years we've been open, and we have achieved preferred lender status with the SBA. I'm also a Director of the National Association of Government Guarantee Lenders. They are the trade association for the participants of the SBA 7(a) program, and our members account for approximately 80 percent of the 7(a) loans made annually. Commonly called the SBA's flagship program, the 7(a) program has proved to be an excellent public/private sector partnership.

Today the 7(a) loan program is operating at less than full capacity as a result of an inadequate 2004 budget request. Due to a funding shortfall, the SBA closed its 7(a) program for a week earlier this year. When the SBA reopened the program, they imposed a $750,000 cap and other lending restrictions. Sudden program stoppages and administrative changes make it difficult for both lenders and borrowers to use the 7(a) program.

Since the 7(a) program is such an important source of long-term capital for small business, we ask for the Committee's assistance to see that the 7(a) program gets appropriately funded and managed to avoid the program disruption experienced this year.

On the heels of the inadequate 7(a) program budget request for fiscal year 2004, the administration has proposed raising 7(a) program fees even more for 2005. The President's 2005 budget calls for a zero subsidy rate and no appropriation. This proposal is a non-starter. It is disturbing that the program would face further fee increases, given that the Office of Management and Budget has documented the fact that 7(a) lenders and borrowers have already returned over $1.2 billion in excess fees to the treasury.

It does not seem to matter that the administration had a budget bust this year, requesting too little program authority resulting in loan caps and program restrictions that have harmed many small businesses. It appears that in addition to many borrowers being told "Too bad" this year, next year's borrowers will be told "More fees."

With the 2005 estimate of demand of $12.5 billion, the administration has finally recognized that small business loan demand has grown, albeit a year too late. We question, however, the need to limit the program. If the administration wants to support the 7(a) loan program and its mission to provide long term capital to small business, why limit the program to anything less than the authorization limit of $16 billion, as proposed in the pending reauthorization bill?

Our small business customers need a reliable source of long term capital, not rhetoric about how important they are. Small businesses need to be treated fairly, and they need the administration and Congress to support the SBA and its 7(a) loan program. Thank you.

Senator PRYOR. Thank you.

Mr. Hinton.

STATEMENT OF SAMUEL W. HINTON, SMALL BUSINESS EXECUTIVE, METROPOLITAN NATIONAL BANK, LITTLE ROCK, ARKANSAS

Mr. HINTON. Senator, I want to thank you for holding this hearing in Little Rock today, and thank you for allowing me to participate. My name is Sam Hinton. I'm the Small Business Executive for Metropolitan National Bank here in Little Rock.

I want to take this opportunity to recognize a very special guest that's with us today, Mr. Tony Wilkinson, the head of NAGGL, the National Association of Government Guarantee Lenders, in Stillwater, Oklahoma. I personally appreciate the fact that he came to Little Rock to support small business in Arkansas today.

Based on my understanding of the scope and nature of this hearing, I will briefly address four different areas. First being the Little Rock SBA district office. We work very, very closely with the SBA district office. We ask the question, "What do they do?" "Are they necessary?" "Do we need them here?" Absolutely. They provide so much assistance and direction of a personal nature. They assist in packaging, analyzing, and approving 7(a) loans.

As a lot of us who have been in this game for a long time know a little bit more about it, but if we expect other banks in this state to participate in SBA lending, it is critical that the SBA district office continue at this point.

They provide information and educational assistance to small business. Information is the key to success. Most businesses fail due to lack of management ability. We have got to have additional training and support to help small business succeed. We'll find access to capital if we've got the information and the management ability to make them successful. That's what the SBA helps with. They support and sponsor two very important groups, the Service Corps of Retired Executives, and the Small Business Development Center.

I've had the opportunity to work with small business development centers all over the Nation, and I promise you, we have one of the best right here in Little Rock, Arkansas. We need to continue that sponsorship and that support. They help small businesses be successful. They provide information and knowledge on a local level to a lot of different organizations and they sit on a lot of different committees. We need a human being there, not a computer site. We need an SBA representative to help in what we're trying to do in Arkansas. They're a key point of contact for all small business.

I, personally, at Metropolitan National Bank strongly support the continuation of the SBA district office here in Little Rock.

The second point, 7(a) loan program. We are very heavily involved in the 7(a) loan program. Metropolitan National Bank did not have a specific small business department until I came on board. We are now developing that, and there's currently nine members of our team. A large part of our focus is SBA lending.

I had a customer that had been approved for a loan that had some cost overruns. I would normally have the authority to go into a little bit of cost overrun with a percentage increase. I was not

able to do so in this case. He could not order his equipment, and had to slow down his opening.

We had another client that was approved for a $990,000 deal. Cutbacks brought us back to $750,000. The deal just wouldn't work at that level. Don't forget the fact we're actually hurting people out there. We're hurting business owners. I encourage that we fund the SBA program. We need to get it back to the full maximums, we need to allow for piggyback loans to allow banks to do creative financing on some of this and let us see what we could have.

The SBA express program, in my opinion, is not necessarily the answer. I think we need the funding to make the program work. I'm all for efficiencies and synergies, and economies of scale, and we'll participate at any level. The smaller banks in Arkansas don't have the knowledge and expertise to participate at an express level. We strongly encourage that you keep 7(a) as a viable, simplified, and affordable option for the borrowers in Arkansas.

As it relates to the microloan program, that's a tough program. It's one that's hard to administer. I think the issues with microlending is the administration of it. If we come up with some kind of simplified scoring mechanism, and treat it almost like a credit card service that can be fast and furious and down and dirty, that could be something we can do.

Overall, I don't believe that the microloan program would have that much of an impact. If we lose the SBA and the 7(a) program, we're in much greater hot water.

Finally, assisting the SBA and the Arkansas business community. We need to continue to create efficiencies and economies of scale as appropriate, but we need the SBA here. Let's don't forget the human factor. It is very important to utilize high tech things as much as possible, but keep the human factor here.

We, at Metropolitan, are willing to assist in any way. We're willing to carry our fair share. Besides the University and the SBA, we are the largest supporter of the SBDC, because we believe in them. They're doing a great job, and you've heard that already. We will continue to support in any way and help and do our part. I just encourage you to help us help them. Thank you, sir.

Senator PRYOR. Thank you for being here.

Mr. Wilson.

STATEMENT OF ODIES WILSON, III, INTERGOVERNMENTAL RELATIONS MANAGER, CITY OF LITTLE ROCK, ARKANSAS

Mr. WILSON. Senator Pryor, and other distinguished members of the panel, my name is Odies Wilson, and I'm the Intergovernmental Relations Manager for the city of Little Rock. As part of that stead, I manage the city's small business development activity for small minority-owned and women-owned businesses. I also have the distinct pleasure to serve as the Chairman of the Minority Business Development Roundtable, which is a demonstration project funded by the U.S. Department of Commerce for the development of small minority businesses.

Most of the comments that I would make in support have been made by several members and the guests. I think I work very well with Sam, I work very well with Arkansas Small Business Development Centers, but the basic comment I would make is that the sup-

port and survival of small and minority businesses throughout this state and this country are dependent upon the continued support of the small business development administration projects and the minority business development administration projects that we work with so consistently.

I would say that one of my real pleasures in the last couple of years, for instance, we've been working with Arkansas Small Business Development Centers on the entrepreneurial package. One of the things that we really focus on is that one of the real challenges in business, and particularly in Arkansas, is the African American businesses, the business participation rate, as defined by the U.S. Department of Commerce is one of the lowest in this country. Arkansas, Alabama, Pennsylvania, and Wisconsin are average—the business participation rate is based on average number of business per one thousand. Arkansas is the 17th.

One of the things we focused on in the city of Little Rock is trying to focus on how we can increase the entrepreneurial participation of African American and other minority businesses within our jurisdiction.

One of the real challenges has been aided by our partnership with the Arkansas Small Business Development Centers. In the last 2 years, for instance, we've had 131 businesses enrolled in that program. 101 of those businesses have come out with full business development plans that focuses on expanding and growing their business.

Across the Nation, I think the business participation of Business Development Centers is about 28 percent. We are about 78 percent because of the focused intent on doing business with people. Also, an outgrowth of that association with Arkansas Minority Business Development Center is based on that demonstration project. It's a 2-year funded, $175,000, a year, and we put in about $45,000 per, so about $220,000 over the last 2 years, the roundtable is Business Development Center, we got all the participants that are actually dealing with capacity building services throughout central Arkansas, but the State, Federal elements, but actually what we do is every month, we give out mini grants, subgrants between $1,000 and $10,000 on best practices, on innovative approaches to enhancing business development activities.

In the last year, for instance, first year of the project, we did 18 projects, and those 18 projects accrued. We are tracking our activities between contracts and sales and activities over $32 million worth of business activities. For a little under $200,000 Federal money and the net. I'm saying the dollar multipliers are just phenomenal, because we really do believe in the power of collaboration and cooperation.

I think one of the things we're missing, and I think Sam so ably made the point, is that when you start depersonalizing, when you start desympathizing, when you start downsizing and computerizing, you take out the human elements. I think why does our system work better than other systems that we're dealing with is because there's a face, and there's a person. There's a personal contact that's involved in what we do. People know that they can come to our center, and they're going to talk to someone that's going to be able to give them some help, going to be able to negotiate the

list of phone numbers and referrals and resource people, who does what, and who can most ably assist them most expeditiously.

Because one of the things that really we focused on and one of the realities that—and I work with Sam a lot, but I differ with him a little bit, U.S. Department of Commerce assigns microenterprises as enterprise that gross $10,000 or less. Roughly in the United States of America, 35 percent of all small businesses, 35 percent of all small businesses has $10,000 or less gross receipts. Then 39 percent of all African American business is similarly situated. I think it's very important that my closing comments would be that we support not only the 7(a) loan program, also the SBA local office and the personal contacts, but that we also support the concept of microlending.

We are a Federal empowerment zone, we have a microlending program, for instance, where we work with local lenders and Metropolitan Bank and others that we did—the SBA 80 percent, we did the other 20 percent, so a hundred percent funded microloans whereas we gave out over $500,000 worth of loans, and we had zero defaults. We did a hundred percent loans, we did very liberal credit requirements and those kind of things, and we had zero defaults on those loans.

The point that I'm making, I think local participation, the focus on partnerships, and the real focus on the viability of small and—because there's so many rippling effects when we talk about microenterprises, because we're talking about the working poor, people who are in business not because they're not making a lot of money, but because they believe in the business, because, like I said, $10,000 microenterprises, one-third of most of the business in this country and this state, and people are working to make a living, and we should support them all we can.

I will close my comments with that.

Senator PRYOR. Well, thank you. That is one of the reasons we are here today; to hear from folks out in the real world.

Mr. Harris.

STATEMENT OF SAMUEL L. HARRIS, III, EXECUTIVE VICE PRESIDENT, ARKANSAS NATIONAL BANK, SPRINGDALE, ARKANSAS

Mr. HARRIS. Thank you, Senator Pryor. My name is Sam Harris, and I'm the Executive Vice President of Arkansas National Bank in Springdale, Arkansas. It's my pleasure today to have the opportunity to address the U.S. Senate Committee on Small Business and Entrepreneurship on such an important issue and contributions made by the U.S. Small Business Administration.

In particularly, the SBA district office here in Little Rock. I represent Arkansas National Bank, one of Northwest Arkansas' leading producer of SBA loans, and one of the top producers statewide, as my friend Philip Knight mentioned earlier. My comments are a little bit different than Philips, but along the same lines.

Our financial institution originates millions of dollars in SBA loans each year. The SBA loan programs are an important part of our efforts to reach out to our business communities and fund the entrepreneurial spirit and momentum that is so very pervasive in Northwest Arkansas. We could not be as effective in these endeav-

ors without the valued assistance of the SBA district office in Little Rock, Arkansas, and its outstanding staff of loan specialists and servicing personnel.

I'm here today to share with the Senate Committee as to why I think it's critical for the SBA to continue to have independent district offices in each state, and especially here in Arkansas.

Although it might appear that the SBA district office consolidation would on the surface solve program funding issues, in the long run, I believe it would be detrimental to the program and cause future losses that would more than offset any savings that might be realized by the consolidation of the program and the offices. Here is why.

Having such fine representatives such as lending chief Bill Horn, and his staff, in the Little Rock district office gives the SBA a local presence that allows the agency to make solid lending and servicing decisions based on local knowledge of issues and the economic climates of areas of commerce and different communities throughout the state. Also, a local office is in a better position to make suggestions to lenders, which leads to better structured loans, better decision-making for the SBA, the bank and the customer. It has been my experience that higher asset quality will yield fewer losses in the business of finance.

Having the SBA district office here in Little Rock, Arkansas provides a higher quality product for the SBA and a better return on the investment of the U.S. Government with a loan portfolio of higher asset quality and fewer losses. The SBA has a long and distinguished record of being in touch with entrepreneurs and the small business community as a nation. It would be well served to remain a locally-based program with locally-based professionals. Thank you.

Senator PRYOR. Thank you.

We also have Tyrone Davis here, who is a small business owner. Tyrone, would you like to say a few words?

STATEMENT OF TYRONNE DAVIS, OWNER, DAVIS OIL AND PETROLEUM

Mr. DAVIS. Thank you, Senator Pryor. Personally, I have written a response to your Senate Hearing that I'd like to put in the records. I am an avid participant of all the SBA programs. I started my firm back in 1992 after a long history with an oil company. Someone had mentioned SCORE, I participated in that.

One of the first things that I started my business—I started out at the Arkansas Small Business Development Center going through every training program they had. I would suggest any new businesses that start off in business go through those training programs. In addition to that, the University had another program called the Small Business Academy where they took graduate students to come over and look at my company and gave me a strategic plan so that I have something to follow. I'm all for the SBA and, Congressman, anything that you can do to save our district office, I'm all for it.

Senator PRYOR. Thank you so much.

You know, we have a lot of witnesses on this panel, and I'm just going to go through and put questions to the witnesses, kind of al-

most randomly here, and—I don't know exactly where to start, but if I may start I will in the middle with Kevin.

I have a few follow-up questions on what you said in your testimony. One thing is, you said that you have an outstanding 7(a) loan portfolio of about $13 million at your bank. Do you know about how many businesses that translates into.

Mr. HESTER. It would be about 60 businesses.

Senator PRYOR. Do you have any sense of how many employees are involved in those 60 businesses? Would you know that off the top of your head.

Mr. HESTER. I'm going to guess between 750 and 1,000.

Senator PRYOR. Yes. Also, you mentioned the SBA having a flagship program, a 7(a) program. One thing you touched on is it is an excellent public/private sector partnership. It seems to me that we need to be looking for those type of partnerships where we can work with the public sector and the private sector and get out here and do some good for some people. Seems to be a smart way that we can spend our tax dollars, because the lenders have the risk, and, you know, you have a guarantee from the SBA, but nonetheless, the way it is established is that we share that risk. You have every incentive in the world to get out and make good strong loans to companies that can get out and do some good with it. Still the government provides that safety net.

Do you have any comments on that partnership you have with the SBA?

Mr. HESTER. The partnership is very good. The lenders are asked to do a lot of things, and we have increasingly taken more responsibility, but the SBA does need to be there to do certain parts of the process. I think that changes that are being made in the system and in the operations will take them out of that. They will not be able to do the job that they've done in the past. Especially without the district offices. Arkansas being one them. They won't be able to perform the parts of the partnership that they've done in the past.

Senator PRYOR. Right. I agree with you on that. You also mentioned in your testimony that the zero subsidy and the non-appropriations is a nonstarter for you. Tell me why that is. Why do you feel so strongly about that.

Mr. HESTER. It just will not work. Two years ago we had a reduction in fees, and now we're going to go back and ask the borrowers to go back to the fee structure we had before. The zero subsidy rate, we really don't have a whole lot of information of how they calculate the subsidy rate at this point, and that's another problem, an issue we have to deal with. The zero subsidy with no appropriations just will not fund the program. The program will not fund itself.

Also, with a 50 percent guarantee, you're going to lose a lot of banks. Philip mentioned it. It's the same situation with us. You'll have a lot of banks that will not participate in a program, the fees that they'll generate will be lower, and the program just will not work.

Senator PRYOR. Right. I share that concern as well.

Mr. Wilson, let me ask you if I may. You mentioned the microloan program, and I want to ask you about that, but also you

talked about minority-owned businesses and the statistics here in Arkansas. I think I know the answer to this, but I would like to hear it from you.

Why is it important that we should try to have minority-owned businesses in this state and in this country? What is the value of that to our economy and to our society?

Mr. WILSON. I think the biggest point—just take the Arkansas references. Roughly 20 percent of business—I mean, the population of Arkansas is minority, and we're talking about African Americans, Hispanics, Asian Pacific Islands, American Indians, the Federal definition. Right now, that business participation rate that I was referring to is about—it's less than 6 percent. In reality, one of the things you find that—in good times and bad times, people's economic status and participation in the American dream really establishes how they view their whole lifestyle.

I think that it has a very strong implication, and you have contributing factors on crime rates, on unemployment rates, on poor health, on education. I think it has a rippling effect as how that impacts us.

I think the best approach to equity in America or in our income is not so much to focus on civil rights but silver rights. It's actually trying to do all that we can to make sure that everybody participates as best they can in the economic depressed prosperity of our country. I think that's one of the things that we really try to do. If those special efforts are not encouraged, just like desegregation of education, and some other historical things would not have occurred without the assistance of the strategic and very pointed assistance of the Federal Government. I just don't think it occurs naturally. You have to do extraordinary efforts to remedy extraordinary deficits.

I also think that statistical anomaly you have to do all over this county. If that's the case, just like we're putting extraordinary resources in the rebuilding the infrastructure of Afghanistan and Iraq, I think that same concept, we can justify putting some extraordinary remedies to addressing those disparities.

Senator PRYOR. Well, let me ask then a follow-up with the microloan program which you referred to in your testimony a few moments ago. Given your experience with the program, do you think—and by the way, as background, you know the President's budget would eliminate the microloan program and fold it into some other programs, but do you think the microloan program as it exists today has been satisfactorily implemented to help those people who really need the help?

Mr. WILSON. No, I do not. Simply because—and I think Sam made a good point. I mean, in good banking operations, microloans does not make good banking sense, because of the size of the loan, the service on the loan, and all those things.

That's what I'm saying, the whole focus on doing extraordinary things. Like the programs that we dealt with in Pulaski County, for instance, like I said, we went above the 80 percent SBA guarantee, and we did the other 20 percent. It's a 100-percent guaranteed loan. In other words, the bank has no risk, zero risk.

Then we had ADFA, Arkansas Development and Finance Authority, a public and another state agency to do the administration of

the loan. There was no added administrative over here to the bank. In other words, you made it easier for them to service those loans. We service those loans through Metropolitan Bank, a local bank. Like I said, at this point in that program, zero defaults.

The whole program is based on the fact that they already had to go to a bank and been turned down. Then we would get them after they got turned down. We would look at them individually, case by case, on the viability of their business concept and the profitability of their loans and so forth.

A number of those loans were no defaults, and a number of them have become traditional loans from Metropolitan Bank. Our point is that you have to have extraordinary efforts on the bottom end, and this may not really be due to the business participation rate, because we start talking about people working, and we're talking about less than 10 employees, and they might have a large growth revenue for their business. They might go through a couple of hundred thousand dollars, but when you start talking about their gross receipts at the end of the day, with those people with less than 10 employees, their gross receipts is $10,000 or less. That's what the point is. That's 35 percent of small businesses in America.

That is the danger that we talk about when we start talking about the job creation. It creates a lot of jobs on the lower end of the spectrum, a lot of people that would be left out of the process otherwise.

Senator PRYOR. Mr. Sam Walls, let me ask you, if I may. I think you said you are the largest SBA 7(a) lender in the state?

Mr. WALLS. Yes, sir.

Senator PRYOR. Do you know off the top of your head what the average size of your loans are? Do you have an average on that?

Mr. WALLS. Senator, we're somewhat different than a bank in that we are by legislation prohibited from competing with banks. We are, like SBA, a gap filler, between what can be obtained from the traditional capital markets and what the borrower needs. As a consequence, we do not do the small loans.

Senator PRYOR. I see.

Mr. WALLS. Small, being defined as less than a hundred thousand dollars. Unless it is for a minority or a women-owned business. We will do those. Our average generally is going to be something like $300,000–$500,000. It will vary between, say, $250,000 and $400,000 in any given year.

Senator PRYOR. Yes. Tell me the challenges from your standpoint, the challenges that smaller businesses have in getting capital. What makes it so hard for small companies to have access to capital?

Mr. WALLS. Well, I think in the context of the SBA, it's clearly a matter of risk for the lender. A lot of small businesses don't have the track record or a long enough track record that the lenders can get comfortable with. Sometimes it's a matter of collateral, the inadequacy of collateral.

The fundamental tenant of lending is that your first way out is through cash flow and, hopefully, profitability, and the second way out is collateral.

Senator PRYOR. Yes.

Mr. WALLS. If you make a loan that does not have any collateral or a guarantee, you're not lending, you're venture capitalizing. A lot of bankers find that out the hard way.

Senator PRYOR. That is right.

Mr. WALLS. I think that's where the SBA product steps in and makes a deal doable for a lender that otherwise would not be doable. The typical small business, much like has been referred here today, generally doesn't have a lot of assets that would shore up a larger credit.

In our case, we're dealing with bigger numbers, we're talking about pieces of capital equipment, buildings real estate, things of that nature.

Senator PRYOR. Yes.

Mr. WALLS. One the hardest types of capital to get is working capital, regardless of the size of the enterprise. I think that's an area where the SBA is particularly important.

Senator PRYOR. Good. Now, I am going to ask Philip Knight this next question, but I'm going to base it on something you said, Mr. Walls a few minutes ago. You said that good partners do not do things that harm their partners, and that is one of the principles in partnership, but, Mr. Knight, you, I think, referred to in your testimony about how closely you work with the SBA and some of the concerns you have.

Describe for me your working relationship and your partnership, with the SBA here in Arkansas and how that relationship has been progressed.

Mr. KNIGHT. Okay. Couple of different avenues. Let me start with the loan processing side. It is very typical for me to contact one of the loan officers. We're fortunate to have in our area a loan officer in Fayetteville that serves Northwest Arkansas, and, yet, sometimes he doesn't have all the answers, and we'll come to Little Rock to loan officers here. It is very typical to call and ask eligibility questions.

If you've seen the SOP, you know it's a substantial manual, and there are all kinds of rules and regulations we're to follow in order to ensure that we're getting our guarantee on our loan. Sometimes there are issues that come up that fall somewhere between the white and the black, and we have to make judgment calls.

I can tell that you right now—I've worked in SBA in two different districts, and the Arkansas district interprets things different than the Dallas district that I came from. I think that that's true largely because of the uniqueness that is our state. That's probably the same way across the country. I would guess that each of the district offices tailor their interpretations around their local regional economies.

Now, if we go to a centralized processing, than what we have here is someone who is looking at a loan in Arkansas, at the same time someone is looking at—that same person may be looking at a loan in Los Angeles. There's just a myriad of different.

Senator PRYOR. Right.

Mr. KNIGHT. I mean, we don't need to go into it——

Senator PRYOR. Right.

Mr. KNIGHT [continuing]. But all of the difference we have there.

Senator PRYOR. This kind of goes back to having that familiar working relationship with people in a so-called local office——

Mr. KNIGHT. Absolutely.

Senator PRYOR [continuing]. That understand the terrain, so to speak, and not some toll free number or website. I think that you mentioned that no one knows what kind of service you are going to get there.

Mr. KNIGHT. Absolutely. On the liquidation side, you know, I've worked with David through liquidation, and, in fact, I worked through my very first liquidation with David. I called him, and I said, "David"—knowing David for quite a while before we had that situation, I said, "This is my first one. Would you hold my hand and walk me through it?" I can't do that——

Senator PRYOR. Right.

Mr. KNIGHT [continuing]. Going to Virginia or Kentucky or Sacramento, or wherever it's going to be.

Senator PRYOR. Across the country.

Mr. KNIGHT. That's right.

Senator PRYOR. Now, let me, if I can, switch over to another witness here quickly.

Mr. Hinton, I was going to ask you about your testimony, I think you were very clear that you think it's important that we continue to have an Arkansas presence for SBA and how important the local offices are, and many of your comments addressed the 7(a) program. In your written comments, you touch on the microloan program. Let me ask this: As I understand the microloan program, these people who—these microborrowers sometimes have average credit scores around 500, or something around that number, but I think the average size of these loans may be around $11,000. Do you think that if the microloan program is eliminated at the Federal level, do you think that private entities will come in and have a market there for those borrowers?

Mr. HINTON. No, I do not.

Senator PRYOR. The economics do not work. Is that right?

Mr. HINTON. Yes, I mean, we're talking about success, and success for a small business owner encompasses many things, and we're kind of preaching to the choir here, but experience, management ability, equity injections, cash flow, profit, and credit worthiness are the considerations.

When you're trying to consider how to make a $5,000, $10,000, $15,000 loan, first of all, you worry about the equity injection. Most success stories are based on the fact that it does require some ownership or equity in the business, that the fact that having a personal ownership does ensure a little bit better chance of success.

You know, you start questioning someone that really can't come up with $5,000, then the economies of scale, the fact that most traditional financial institutions just cannot do this. It's not something that can be afforded. I am all for that, and I work very diligently to help smaller clients. That's where I think you make the most impact. It's not about maybe the number of jobs, it's that father or mother that has a child, and they're trying to do good and make a living in this country, and I always try to simplify things down to the basic level, and I think that's what dictates our decision, or should. I still say there's a smarter way to do this.

We keep trying to do the same old thing, and that keeps on failing. You know, certain groups have figured out how to do this. I mean, you know, there's ways to do mass type of financing based on scoring mechanisms that we can help a broader segment. You know, you get a credit card application almost every day. They take much lower credit scores, they operate on a system of numbers. It has to be fast and efficient.

For me to invest time that it would take to lend someone $5,000 or $10,000 is not necessarily the most reasonable way. I am all in favor of microloans supporting the smallest of small business, but in a much more creative way.

Senator PRYOR. Right.

Mr. HINTON. It still gets back to let's save the 7(a). It will be a moot point if we don't save the SBA and the larger loan programs.

Senator PRYOR. Yes. Mr. Harris—by the way, we have three Sam's on the panel. Sam Harris, you came down from Springdale today. Correct?

Mr. HARRIS. That's correct.

Senator PRYOR. People in Arkansas are sensitized to the fact that that part of the state has a robust economy, that, really, there's some exciting things happening there in terms of population growth, and opportunities there. Nonetheless, today you've come in, and you talk about how important the SBA is, even in that environment.

I would like, if you could, to comment on that, because I know the Northwest Arkansas economy, and the economy where you are, has suffered some in the last couple of years, 3 years, there's no doubt about that, but also it's still considered a very strong economy by Arkansas standards, and so I would like to hear a little bit more about the SBA in a growing economy, a strong economy. If you could comment on that, I would appreciate it.

Mr. HARRIS. I think some of the comments have already been made with respect to why it's important to have the guaranteed loan program for the lenders; to entice us to get out there and make loans. Even in a good economy, that doesn't mean that there aren't projects that aren't going to require the loan program. A good economy doesn't mean that everyone can go to a bank and get a conventional commercial loan.

I think many of the situations are the same in a good economy as they are in maybe an economy that's not quite so robust. People still need working capital loans for their businesses, and some of the points that were made earlier about some of the things that Sam talked about, about the collateral issues can be an issue.

The Low Doc program and the 7(a) program are excellent programs that allow lenders to get out there when a business has an excellent cash flow, but maybe they have some other weaknesses, but it's still a strong business that creates a lot of jobs, it's a profitable business, the bank decides to go ahead and do the project, and that company grows.

I know Philip and I could sit here for hours and talk about our success stories as well as the rest of the lenders in the room from these programs. I think now more than ever we need to, you know, focus on this issue. Let's get it restored, let's get the full funding on the programs, and move forward with that.

I don't think because we're in a robust economy that we should back off of the programs.

Senator PRYOR. Right. I appreciate that. Yes, sir.

Mr. KNIGHT. I might add, Senator Pryor, that with a robust economy, there is more needs for service-oriented business. I mean, yes, Wal-Mart is the largest retailer and the largest company in the world, but they have to have a whole array of different support businesses around them. Those businesses come to us and don't have the collateral, and they don't have the history, start up businesses.

One of the things Mr. Walls didn't talk about, but is notorious in lending, there are certain types of businesses that are more risk oriented. Without the SBA, we're not going to make these loans to these types of businesses. That is one of the areas that the SBA is very important for. In a robust economy, there are more businesses starting, and they are more risky.

Senator PRYOR. All right. Mr. Blair, I am going to finish these questions with you on this panel, and that is, you have just gone through a process with the SBA which was not fruitful, as I understand it. How was it dealing with the SBA? Were they helpful? Did you run into any bureaucratic red tape, so to speak? I mean, how was it to deal with the SBA?

Mr. BLAIR. Well, actually, I guess the process was made easier by Sam Walls' company, so, you know, my dealings with them was pretty good.

Senator PRYOR. Yes.

Mr. BLAIR. You know, the bottom line, however, became they weren't going to fund the loan——

Senator PRYOR. Right.

Mr. BLAIR [continuing]. In the manner that we needed it funded. I guess, ultimately, it didn't work out, and it wasn't good, but——

Senator PRYOR. Do you have that access to capital now? Are you going to go back to the SBA or have you already figured out another way——

Mr. BLAIR. We're scrambling right now.

Senator PRYOR. Okay.

Mr. BLAIR. I don't know. I don't know just exactly how we're going to approach that.

Mr. WILSON. Senator, if I may.

Senator PRYOR. Yes, sir.

Mr. WILSON. There's some public policy implications. I think Janet made the point that the authorization first, the appropriations, I think is real important, in that, you know, like for instance, the SBC Centers, the $125 million authorization versus $88 million appropriation. I think that to continue to fight to have those authorizations fully funded, when there's extraordinary efforts. Also, the flip side of that, too, is even within the $88 million appropriation is actually to focus on setting priorities.

Senator PRYOR. Yes.

Mr. WILSON. And put pressure on those administrative agencies to set priorities, and I think that's one of the things I would like to bring forth even with limited knowledge and limited time. Certain things in the hierarchy of needs are more important than others.

Senator PRYOR. Okay. Let's go ahead and change panels. I appreciate you-all coming in and your time. Again, the record will remain open. Anything you think about later that you may want to add, that's great, and we may have some questions that we may present to you here in the next few days because we did run out of time today.

Let's go ahead and change panels. We're going to have our last panel come in. We'll just take a couple of minutes to break as we do that.

[Wherein a break was taken from 12:25 to 12:36.]

Senator PRYOR. Let's reconvene. We have Charles King and Janet Roderick on the panel. Again, you-all know the format. Try to talk maybe 3 minutes, 5 minutes at the most.

Mr. King will you lead off?

Mr. KING. Yes. Thank you, Senator. Janet and I were just talking, I want to thank you, first of all, for saving the best for last.

Senator PRYOR. Exactly.

STATEMENT OF CHARLES KING, EXECUTIVE DIRECTOR, ARKANSAS REGIONAL MINORITIES SUPPLY AND DEVELOPMENT COUNCIL

Mr. KING. We would like to say thank you, first of all, for bringing this hearing to Little Rock, as well as say thank you for the support we receive not only from you but your office staff in particular. All of them have always been very responsive to every request we've had, and I think that's important as we move forward in this type of process.

My name is Charles King, and I am the Executive Director of the Arkansas Regional Minorities Supply and Development Council. Our organization is a private, nonprofit organization. We were established in 1978, and our mission is to promote the development of business opportunities between minority business enterprises, corporations, and government agencies.

We undertake a number of activities to accomplish our mission, and these activities include but are not limited to certification of minority businesses, facilitation of business and contract opportunities, between minority vendors and the business community, training workshops, annual minority business opportunity trade fair, networking opportunities, technical assistance, and advocacy efforts.

I want to say up front that through all of these efforts, not one week goes by that we do not have the opportunity to refer at least one client to the SBA. Our membership consists of some of the most recognized and respected corporations in the world.

We're a membership-based organization, corporate membership based. That includes Wal-Mart Stores, Tyson, ALLTEL Communications, Comcast, Nestle, and Enterprise Rent-A-Car, just to name a few. I say that because actually what we're talking about today in capitalizing minority-owned and small-owned businesses, these corporations are really the end users. Many of them are end users simply because some of them have reporting responsibilities to different Federal agencies that they work with. These corporate members rely on us to produce qualified, certified, minority businesses to respond to procurement and contract opportunities. These

companies are very reliant on small business administration programs.

The support offered by the SBA, in many cases, is the only assistance available to allow small disadvantaged businesses to compete. The programs that are most crucial to the minority business community in Arkansas is the 7(j) and (a) program, the microloan program, and the outreach officer. It is our understanding that these programs are at risk of severe cutbacks or total elimination. We believe that this would be a death blow to most of the minority businesses that are poised for growth in Arkansas.

Most business owners would tell you that the No. 1 need for minority business owners is access to capital. However, we believe that the true No. 1 need is access and information, much like that offered by the 7(j) program. Small and minority business owners are in need most of learning how to access available resources. They don't have the resources to hire someone to do what a large majority firm would do to hire others while they continue to run their businesses.

The assistance offered leads to success in minority business applying for badly needed capital.

Now, I was reading that in Senator John Kerry's remarks that 40 percent of the loans that are done across the country are 7(a)-based loans. In Arkansas, the SBA 7(a) loan guarantee program provides over 80 percent of the loans to small businesses in our area. I would also add that the microloan program, which I believe is critical to Arkansas-based small and minority-owned businesses. Though it's not heavily utilized, it's something that is very, very well needed in Arkansas, and I believe it would be a crime if that program were to be eliminated.

The 7(a) loan program, the terms are easy on the already strained pockets of small businesses. One example is one of the minority businesses we have with us today in this room, and that's the Davis Petroleum Company. Davis Petroleum Company is a small supplier of antifreeze and petroleum-based lubricants. In 1999, he received a 7(a) loan of $250,000. This loan allowed him to expand his business and hire additional employees.

As a result of the assistance that Mr. Davis received, he was eventually named by the U.S. Defense Systems in Richmond, Virginia, as a top quality supplier. That's the organization's highest award. The assistance the Davis Petroleum Company received along the way allowed him to be prepared to receive this recognition, as the defense system was able to receive top quality service from a supplier who just happened to be a small disadvantaged business. It is likely that without this loan, he possibly would not be in business today.

In Arkansas, over the last 5 years, the SBA has issued approximately 1,744 loans. These loans had a value of over $422 million. 300 hundred of those loans were to minorities, 473 were to women, and 276 were to veterans. So far this year, the agency has issued 158 loans with 17 minority, and 30 women loans, and 28 going to veterans.

As a rural state, Arkansas has over the last 2 years, issued 194 loans to rural areas. Two years is the longest available tracking for

rural loans. I would note that Arkansas is considered mostly a rural state with only 14 areas being considered urban.

Now, it's our opinion that the overall budget request, which is less than 15 percent of last year's budget, is a terrible disappointment. The small businesses account for a majority of the jobs created in this country each year, the quality of work is high, and the pay allows families to pay their bills, pay their taxes, and provide for the betterment of the community. The SBA has become the lifeblood of this industry of small businesses. Continued cuts would only serve as a death blow to the continued growth and development of one of the country's most vital resources, the small business.

We humbly request that the SBA not be cut, but rather be fully funded to allow the continued operations of an important program that we talked about.

Senator PRYOR. Thank you. Janet.

Ms. RODERICK. Thank you. Again, my name is Janet Roderick, and I'm the State Director for the Arkansas Small Business Development Center, and I appreciate the opportunity to speak and address this group one more time. I want to talk about the lowering of the cap and the temporary freeze and how that impacted our clients.

When the freeze went into effect, we did a quick and dirty survey of our clients throughout the state, and we found out that we had 25 SBDC clients with over $8 million in loans that were somewhere in limbo, somewhere in the process.

Senator PRYOR. I'm sorry. How many again.

Ms. RODERICK. Twenty-five businesses with a little over $8 million that were frozen. The SBA district office here in Little Rock worked very hard to do what I would call "the right thing" by those clients and keep them informed—and those were just our clients. Those are not all the SBA loans there were. They did the right thing by trying to keep everybody informed as best they could, but they were not receiving any information out of the central office.

Since that time, the freeze has been lifted; however, the lower cap of $750,000 remains in effect and still has negative impact on our clients.

More often than not, these are businesses that have the potential to have a significant impact on job creations. Let me give you an example.

An Arkansas-based technology business is poised for tremendous growth. This business has been in operation for more than a decade and has a nationwide customer base, and it employs about 30 people. After years of research and development, the business is now ready to launch a new product. This new product has already generated national exposure on news outlets such as CNBC and fuels excitement in their customer base and beyond. In order to finance the growth, this business worked with one of our SBDC consultants to develop an SBA loan proposal in the amount of a million dollars. This was right towards the end of the year. Then, without much notice at all, and around the Christmas holidays, the SBA lowered the cap.

This new SBA loan cap of $750,000 is a barrier to this business, as well as many other businesses in Arkansas and across the Na-

tion. These businesses need capital to grow and prosper, and the SBA loan program provides access to capital that might otherwise be unavailable. This new loan cap punishes successful established businesses that aspire to take their businesses to the next level.

The second issue I want to speak about, concerns a news release from the SBA dated February 14, 2004. The SBA proposes to cut the SBA guarantee to 50 percent, increase the cap to two million, and have lenders apply using their own forms and processes instead of "lengthy and burdensome government forms." The SBA says this will add 500,000 jobs. This might be true in big cities with large banks, but it's certainly not true in rural America.

Senator Pryor, as you're aware, start-up funding provides a real challenge to small businesses—to the small community banks. While these banks are active members of the community that the small businesses will operate in, and they have a vested interest in helping provide capital for economic growth, the lenders are also well aware of the risks involved in the small business operation, start-up particularly. These problems of survival rates for small business start-up, the inherently limited collateral of assets available to be pledged to secure loans, equity injection requirements, and in some cases, previous credit issues, makes it extremely difficult for the lender to provide commercial loans without a guarantee program.

Many of the commercial loans made to start-up businesses in Arkansas are for $150,000 or less, which the SBA currently provides an 85 percent guarantee. For many of these SBDC clients, it's the bank's ability to receive the guarantee that is a critical element to receiving bank participation in the venture.

Although lenders hope they will never have to liquidate the loan, and the business will be successful, they are well aware of the survival rates of small business start-ups and generally rely on this guarantee to secure the loan.

The end result of this proposal for small businesses in rural Arkansas will be significantly fewer small community banks using the SBA loan program with only a 50 percent guarantee, significantly fewer start-up businesses being funded, which will have a negative impact on community economic vitality, more small businesses establishing and expanding operations by using the dreaded credit card form of financing their business with the excessive interest rates, and those small businesses that do not receive a commercial loan, receive a commercial loan without the SBA guarantee, may jeopardize the company futures by accepting unfavorable terms such as short term maturities with balloon payments, and having no assurance that these bank notes will be renewed when they're due.

Senator Pryor, I have e-mails from several banks located in the northeast part of Arkansas who responded to an e-mail from Herb Lawrence who is our center director at Arkansas State University concerning the SBA proposal. I'll be happy to submit them for the record. In closing let me say, Senator Pryor, you have repeatedly spoken out against government policy groups that were not in the interest of Arkansas' small business sector. I hope you will speak out against what I fear is the gradual dismantling of the SBA and

the continued failure of the government to adequately fund small business management assistance programs. Thank you.

Senator PRYOR. Thank you. And rest assured, I will speak out against it.

Now, let me ask you, Janet, you know, I asked earlier, is the SBA going in the right direction or the wrong direction? Have I already asked you that question?

Ms. RODERICK. No, but I'll be happy to provide you an answer to that.

Senator PRYOR. I would like to hear your comments on that, because, like I say, I asked this question in Washington, and there was a panel of probably four or five, I do not remember right now, and they all had very strong opinions on it. I would like to hear your opinions because you have a different perspective than most.

Ms. RODERICK. Well, certainly, I would say, "No, I don't believe they're headed in the right direction." Here in Arkansas and throughout the country, particularly in rural states—I've been the State Director of probably the most rural state, I was the State Director of the Small Business Development Center in Alaska.

We know that people need the one-on-one contact. We know that we still work with, "Excuse me. I know that you work here. Can you help me out?" We talked about using the Internet and we use it a lot. However, there are many of our small businesses who still do not actively use the Internet, particularly those who are located in rural parts of our country because they don't have access to high speed Internet. That's changing, but it's changing slowly.

Doing away with the district offices, and I do believe they're looking at the dismantling of the SBA as we know it now with district offices, is absolutely the wrong direction for our business community.

Senator PRYOR. Let me just run through for the audience, so you will understand what we are talking about here, some of the cuts that we are looking at in the President's budget for the SBA, and, therefore, cuts in trying to help small businesses in this country.

The 7(a) loan guarantee program would have zero funding under the President's budget. The microloan program which we have talked about to some extent today, will be eliminated under his budget. There will be several programs eliminated for entrepreneurial development, counseling, business resources, and outreach. In fact, of 20 programs, the President's budget eliminates 10 of the programs. You know, we could run through a long list of what they are—we'll submit this for the record. Certainly, it is of great concern to small businesses.

We hear about it all the time in our office, and just talking to people, I hear about it every time I come back, it seems like.

Also, Mr. King, a few moments ago you talked about 7(j) and how effective it has been and what a good program it has been. Under the President's budget for fiscal year 2005, they will cut it by $500,000. You may think, "Well, what does that really mean?" Well, that is a 25 percent cut. That is a 25 percent cut in that program.

In fiscal year 2004 it was a $2 million line item, and in this fiscal year that we are talking about now, it will be a $500,000 cut on that. It will be $1.5 million.

Mr. King, let me, if I can, focus on you for just a moment. We, actually, are pretty far over time here, so I am going to keep my questions very brief.

In your view, how is the SBA helping Arkansas and helping the Nations's economy? I mean, just in general terms, how does it help?

Mr. KING. It's a tremendous help. Let me just piggyback on the comment you made just a minute ago about the 7(j) and the type of outreach. It's my understanding from reading that the outreach offices will be eliminated. I've spent a great deal of the last 6 months of last year on the road with who would be considered the outreach officer here in the Little Rock office, just educating our citizens across this state on what is available to them and then how they should apply for the assistance that they can get through the SBA.

Something that these bankers really appreciate, I know you've talked to a lot of great bankers, and we worked with a lot of them that were here today, but what they don't have time to do is something that really the rural part of Arkansas really needs a lot of, and that's a lot of hand holding, a lot of hands-on approach. That's going to be lost because that person is going to be eliminated.

Because we are such a rural state, and someone said that all politics are local, all business is local, too. People want to be able to reach out and touch someone, especially a state like this where you don't have people that are accustomed to thick forms and things of that nature. The overall impact is just tremendous, within the minority business community.

You asked the question of one of the other panelists, and I was sitting there going, "Say something." That is that in minority businesses, 90 percent of the employees of minority business is a minority. You're talking about the very basic of employment, family support, community building, and things of that nature. The SBA is very much a part of that foundation.

Senator PRYOR. Well, that is my impression as well. I thank for you that answer. I am going to ask you a question that I asked Miss Roderick just a moment ago, except a little different twist.

I asked her if in her view the SBA was going in the right direction or the wrong direction. You talk to a lot of businesses in this state every day; what is the word out there in the business community about the direction the SBA is going in light of this President's budget proposal.

Mr. KING. People are very nervous. If programs like the microloan program is eliminated and the 7(a) loan program is severely cut back, what it's going to lead to, I believe, is a lot of small and particularly minority businesses becoming subject to more predatory lending practices. The factoring organizations will grow, the small amount of profit that they're making now will be taken away by those factoring organizations. They'll go to these—they may even resort to check cashing places to get loans just to make payroll.

Because the average minority business has less than two employees right now, but they're poised for growth more than that. They're going to be going to practices that won't allow them to grow anymore, if that happens.

Senator PRYOR. Well, thank you. I want to thank everybody for participating in this hearing. We have had a lot of people here watching, and I am glad you-all are here, and appreciate you-all's input as well. We have gone over our time here.

UALR has just been fantastic about letting us use their facilities. Again, we want to thank UALR and all the people involved in this hearing. The staff that came down from Washington, we appreciate you as well. I wanted to remind everyone that the record for this hearing will remain open for 2 weeks, and we welcome any submissions that anybody wants to make, any thoughts, comments, whatever it may be.

Let me give you one bit of advice, though. Do not mail your submissions to Washington, because our mail system up there, due to the Ricin and anthrax-laced letters, is kind of all jumbled up right now. I would highly recommend that you mail those to our Little Rock office, and our office in Little Rock will be sure that we get it to the staff in Washington. Please just mail that to the Little Rock office, or you can contact Derrick Freeman, who is sitting here behind me, or Walter Pryor, who is sitting here behind me, too, the folks I have working up in Washington who do a great job and who really helped organize this whole thing.

Anything else that we need to cover?

With that, this meeting is adjourned. Thank you so much.

[Whereupon, at 12:58 p.m., the Committee adjourned.]

APPENDIX MATERIAL SUBMITTED

Daniel S. Blair
General Manager
Daniel Utility Construction, Inc.
Little Rock, AR

Small Business Committee Hearing
February 19, 2004

We are a family business that has been contracting since 1964. My parent's are semi retired and I am now running the business. The business in its current form has been existence since 1985. The telecommunications industry has been in a slump for three years following the technology bubble bursting late 1999.

We had record earnings and receipts in 2001 and 2002 while many contractors in the business were failing. The industry slowdown finally caught up to us in 2003. We laid off 50 employees and held our breath waiting for the economy and industry to improve.

As 2003 progresses we finally began seeing the economy/industry moving in a positive direction. Phone, cable TV, and private network clients all starting talking about spending money. 4th quarter '03 we starting recalling a few people and seeing our construction pick up. Our projections for '04 are for a record billings and income year.

As we move from a losing year into a year of growth we find our cash flow problematic. We attempted to restructure some debt on equipment and land to improve our cash flow position. A substantial amount of our capital debt comes due in '04 and was burdensome to our balance sheet and our cash flow.

Initially it appeared we were in good shape to restructure this debt and decrease our cash flow requirements from $39,000/month to $9,000/month. We submitted this paperwork at the end of December '03 as we were told the program was being restructured after the first of the year.

In January we were notified the loan application was rejected because the land we were including in the restructuring request was, "appropriately financed". Our land is on Colonel Glenn Rd. where lots of development is

currently underway and more is planned. It is the best asset we had for this deal.

The debt element of the property amounted to only 1/4 of the requested money. It seems curious to me to reject a large loan package based on a small percentage of appropriately financed property when we could be helped so much. We are a 2nd generation family business that has been in business successfully for years. We simply have been caught up in a soured economy.

Business has continued to pick up. However, significant growth after a terrible year may not be possible without some restructuring support. We will ultimately need to hire 40-50 employees to effectively handle all of the work. Many of these will come from the ranks of the currently unemployed telecommunications construction industry. We offer good wages and company paid health, dental, and vision insurance for the employees and their families.

It appears to me the SBA should be in the business of helping companies just like us.

DAVIS PETROLEUM SERVICES

February 17, 2004

The Honorable Mark Pryor
United States Senate
Committee on Small Business & Entrepreneurship
500 Clinton Avenue, Suite 401
Little Rock, Arkansas 72201

RE: Contracting Opportunities with the Defense Logistics Agency, Defense Supply Center Richmond

Dear Senator Pryor:

I would like this written testimony to be added to the records of the field hearing to be held February 19, 2004 in Little Rock, Arkansas. My name is Tyronne G. Davis, president of Davis Petroleum Services, Inc. I am a 2002 graduate of the Small Business Administration's 8(a) program.

The purpose of this testimony is to take the necessary steps to allow my small business the opportunity to participate in the Government's initiative to assist disabled veterans. Under H.R. Bill 2297, my firm can participate in the procurement process as a sole source contractor. Therefore, I am seeking the Committee's assistance in helping my company to survive.

During my time in the 8(a) program, I received less than 10 contracts. More importantly, two of my majors contracts were cancelled in 1999 (SP0450-95-D-4107 and SP0450-98-D-4023). The products solicited in these procurements were in the 8(a) program but were taken out and subsequently procured outside of the 8(a) program.

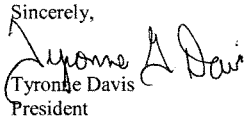
Although I have consistently submitted bids to the Defense Supply Center Richmond (DSCR), and the DSCR has presented me with their highest quality award in 2001, 2002, and 2003, my company has only received two contracts since 1999. I have visited DSCR at least five times and have met directly with the small business officer on numerous occasions. Despite my efforts, I have been unsuccessful in securing additional contracts.

I am asking that the committee look into the contract award practices of DSCR to see whether small disadvantaged business are getting our fair share. I have attached a letter addressing several concerns to Nancy Witwer of the DSCR.

3517 Asher Avenue • Little Rock, AR 72204 • (501) 663-0003 • Fax (501) 663-4269 • E-Mail dps8a@alltel.net

Thank you for hearing this concern and considering this request.

Sincerely,



Tyronne Davis
President

Cc: Nancy Witwer, Defense Supply Center Richmond

Andina Cafe & Coffee Roastery, LLC

Eduardo Gomez, Business Owner

Testimony of Eduardo Gomez in front of the Senate Committee on Small Business and Entrepreneurship. Hearing to be held on Thursday February 19, 2004 at 10:30 AM, at the University of Arkansas at Little Rock, Reynolds Business Center, Rm. 350.

Senator Pryor, committee members, ladies and gentlemen:
Good Morning
My name is Eduardo Gomez
I thank you for soliciting my comments. I am proud to live in a democratic country, governed by the rule of law where the government represents the will of the people and listens to them.
I also want to thank the Small Business Development Center for hosting this meeting.
I have had the opportunity to use their consulting services for small business and found them to be available, professional, reliable and serious.
I was born in Colombia, South America and I am a naturalized US citizen.
I have a Bachelor's degree in Economics and a Masters degree in Social Work from the University of Wisconsin in Milwaukee.
My wife and I recently celebrated 33 years of marriage.
We have two grown children who are both college-educated, married and most importantly are good moral contributing citizens. We have two grand children.
I came to Arkansas in 1983, as an international marketing and sales manager with a multinational corporation headquartered in Arkansas. In the summer of 1988, due to a corporate reorganization, my wife and I were faced with the decision of uprooting our then teenage children or staying in Arkansas. We chose the later. In order to support our family I started an export management company, which exported US manufactured products. These products were commercial water systems and our main market was the Middle East. On August 1990, when Iraq invaded Kuwait during the first gulf war, I watched the undoing of our business with the rest of the world on CNN.
Although I had to find another job then, the entrepreneurial spirit drove me to start another company some years later. This new business concept was a coffee shop and retail coffee roastery located in the new River Market District, which the city wanted to use as the spark for the redevelopment of downtown, Little Rock. A couple of years later, we had to open a separate roasting operation in a different location to develop the wholesale side of the business; our third company.
When I was going to start my coffee shop, I needed start-up capital. I spoke to the SBA at the time, and was basically told that my new company lacked the track record to qualify for an SBA loan. At this time I wanted to borrow about $50,000 dollars. Although that did not deter me from my final objective, it did make the road quite a bit more difficult.

Store location 400 President Clinton Ave, at the River Market, Little Rock, AR 72201 - Tel: (501) 376-2326
Gomez Estate Coffee, 2609 W 18 th St., Little Rock, AR 72202 - Tel: (501)244-0918- Fax: (501) 244-0916,
E-Mail info@gomezcoffee.com ~ Web Page "http//www.Gomezcoffee.com

Andina Cafe & Coffee Roastery, LLC

Most entrepreneurs lack the capital to start a business. Many times that capital is not very much because the entrepreneur is willing to invest sweat equity, which usually far exceeds the amount of a small loan, and which is probably more important to the long-term success of the business than any other single factor. Based on my own personal experience, the entrepreneur's business acumen, personal tenacity, discipline and sacrifice are the most important predictors of success. The second predictor is probably knowledge of the particular business. The third is knowledge of business administration in general.

None of these criteria were used to determine whether or not I could qualify for this small loan. Instead the criteria used were based on conventional thinking of what a lender considers the lending parameters for minimizing its risk with an ongoing business.

Lets face it. Start-up capital is risk capital. But it can also be a doorway into the land of opportunity for those who are willing to make the effort. The question is how to invest it in those, which have the most potential for success. Someone said "we become what we measure" and traditional lenders are not set up to measure these types of parameters. Certain sub cultures within the US, have actually recognized this and provide start-up capital through a peer managed system where business peers and mentors, not bankers, help each other develop new business opportunities. The assurance of payment is based on the personal commitment of the businessperson to his or her peers and on their own support and assistance to the businessperson. I have often thought that this could be somehow replicated in the community at large.

Small business start up loans can be key way to get the small entrepreneur started. They are a way in which society can prime the productive capacity of some of its entrepreneurial citizens. Maybe rather than eliminating them, we should consider how to make them more effective. Maybe if they were managed differently they could become a way for society to **invest** rather than **spend** in its future.

Thank you again for allowing me to make these brief comments. I hope they help you provide more opportunity for those to come.

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Gomez Estate Coffee, 2609 W 18 th St., Little Rock, AR 72202 - Tel: (501)244-0918- Fax: (501) 244-0916,
E-Mail info@gomezcoffee.com ~ Web Page "http//www.Gomezcoffee.com

Keith Grimes, AVP
Commercial Loan Officer
Pine Bluff National Bank

U.S Senate Committee on Small Business and Entrepreneurship
Attn: Sarah Martin, Legislative Clerk
428A Russell Senate Office Building
Washington, D.C. 20510

Thank you for allowing me to comment on the recent changes in the staffing of the SBA and the resulting effects on SBA lending at Pine Bluff National Bank.

I telephoned the SBA Arkansas Regional Office in January to speak with Mr. David Watts concerning a SBA loan that was in liquidation. I was informed that Mr. Watts and Mr. Chapa had both retired and all present and future liquidations of SBA guaranteed loans would be processed through a new facility at Herndon, Virginia. Liquidation files in the possession of the SBA Arkansas Regional Office will be transferred to the National Liquidation and Guaranty Purchase Center. I will be informed by the staff at the Center when they are able to accept my forthcoming purchase request.

The delay in processing SBA purchase requests will affect us in several ways:

- Interest will be written off that is accruing on non-performing assets
- Re-investment opportunities will be limited
- Delinquency rates will be higher
- PBNB will be more hesitant to underwrite new SBA guaranteed loan requests

It is PBNB's opinion that the interest of all parties affected will be better served by expediting the staffing of the National Liquidation and Guaranty Purchase Center.

Thank you again for allowing me to voice our concerns to you.

Sincerely,

Keith Grimes
AVP
Commercial Loans
PBNB

Samuel L. Harris III
Executive Vice President
Arkansas National Bank
3942 Elm Springs Road
Springdale, AR 72762

"**Small Business Assistance in Arkansas: Access to Capital and Service Delivery**."

It is my pleasure today to have the opportunity to address the U.S. Senate Committee on Small Business and Entrepreneurship on such an important issue as the contributions made by the U.S. Small Business Administration, in particularly the SBA District Office here in Little Rock. I represent Arkansas National Bank, Northwest Arkansas leading producer of SBA loans and one of the top producers statewide.

Our financial institution originates millions of dollars in SBA loans each year and the SBA loan programs are an important part of our efforts to reach out to our business communities and fund the entrepreneurial spirit and momentum that is so very pervasive in Northwest Arkansas. We could not be as effective in these endeavors without the valued assistance of the SBA District Office in Little Rock, AR and its outstanding staff of loan specialist and servicing personnel.

I am here today to share with the Senate Committee as to why I think it is critical for the SBA to continue to have independent district offices in each state. Although it might appear that SBA District Office consolidation would on the surface solve program funding issues, in the long run I believe it would be detrimental to the program and cause future losses that would more than offset any savings realized by a nationwide consolidation of the program. Here is why. Having such fine representatives such as Lending Chief Bill Horne and his staff of the Little Rock District Office gives the SBA a "local presence" that allows the agency to make solid lending and servicing decisions based on "local knowledge" of issues and the economic climate of areas of commerce and different communities throughout the state. Also, a local office is in a better position to make suggestions to lenders which leads to better structured loans, better decision making for the SBA, the bank, and the customer. It has been my experience that higher asset quality will yield fewer losses in the business of finance. Having the SBA District Office here in Little Rock, AR. provides a higher quality product for the SBA and a better return on the investment of the U.S. Government with a loan portfolio of higher asset quality and fewer losses. The SBA has a long and distinguished record of being in touch with Entrepreneurs and the small business community of the nation. It would be well served to remain a locally based program with locally based professionals.

Sincerely,

Samuel L. Harris III
Executive Vice President
Arkansas National Bank

SENATE COMMITTEE ON SMALL BUSINESS
"Small Business Assistance in Arkansas: Access to Capital and Service Delivery""
February 19, 2004

Prepared Remarks of Mr. Kevin Hester
Executive Vice President
First State Bank
Conway, AR

The First State Bank in Conway, Arkansas is an active participant in the SBA 7(a) program. We have been involved in the program since our bank started five years ago, and we have achieved preferred lender status with the SBA. We have an outstanding 7(a) loan portfolio of about $13 million.

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

Current Issues

Today the 7(a) loan program is operating at less than full capacity as a result of inadequate FY 2004 budget request. The SBA approved over $11 billion in 7(a) loans in FY 2003, yet the budget request for FY 2004 was for only $9.4 billion in program authority. In testimony last year, NAGGL estimated FY 2004 7(a) loan demand of approximately $12.5 billion. Actual loan volume through the first quarter of FY 2004 was $3.122 billion, supporting the NAGGL estimate of demand made in February, 2003 testimony.

Due to the funding shortfall, the SBA closed the 7(a) program for a week earlier this year, and when SBA reopened the program, they imposed a $750,000 cap and other lending restrictions. Sudden program stoppages and administrative changes make it difficult for both lenders and borrowers to use the SBA 7(a) program. Since the SBA 7(a) program is such an important source of long-term capital for small business, we ask for the Committee's assistance to see that the SBA 7(a) program gets appropriately funded and managed to avoid the program disruptions experienced this year.

FY 2005 BUDGET

Why More Fees?

On the heels of its inadequate 7(a) program budget request for fiscal year (FY) 2004, the Administration has proposed raising 7(a) program fees even more for 2005. The President's FY 2005 budget calls for a zero subsidy rate and no appropriations.

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

FY 2005 Loan Demand

With its FY 2005 estimate of demand of $12.5 billion, the Administration has finally recognized that small business loan demand has grown, albeit a year late. We question, however, the need to limit this program. If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why limit the program to anything less than the authorization limit of $16 billion proposed in the pending reauthorization bill? If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why not take steps now that will lift the lending restrictions and meet the needs of small businesses that exist today?

Conclusion

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

Our small business customers need a reliable source of long-term capital, not need rhetoric about how important they are. Small businesses need to be treated fairly. Small businesses need the Administration and Congress to support the SBA and its 7(a) loan program.

Thank you for the opportunity to testify today.

February 19, 2004

Small Business Assistance in Arkansas: Access to Capital and Service Delivery
United States Senate
Committee on Small Business and Entrepreneurship

Testimony of:

Samuel W. Hinton
Small Business Executive
Metropolitan National Bank
Little Rock, Arkansas

Little Rock SBA District Office Services

- The District Office offers assistance in packaging, analyzing and approving 7(a) loans
- The District Office provides information and educational assistance to small businesses
- They support and sponsor two very valuable groups – SCORE and SBDC
- They provide very important knowledge and expertise on various local committees and groups dedicated to the success of small business in Arkansas
- They are the key point of contact for businesses in Arkansas which need help

I strongly support maintaining the SBA District Office in Little Rock.

7(a) Loan Program

- MNB Small Business Team is strongly committed to SBA 7(a) production
- The shutdown of the program hurt our customers
- Guarantee limits should be raised back to $1MM, "piggy-back" loans allowed and fees kept low
- Greater utilization and loan limits for the SBAEpress program
- Simplify the loan process and paper work

The SBA 7(a) loan needs to continue as a viable, simplified and affordable option for the borrowers and lenders of Arkansas.

Micro Loan Program

- There is a great need for smaller loans in Arkansas
- Micro loans are hard to make and administer
- Simplified scoring type approval would be helpful
- Business Credit card type program

Micro Loans are important but not the most critical part of the equation.

Assisting SBA/Arkansas Business Community

- Continue to create efficiencies and economies of scale as appropriate
- Utilize high-tech solutions where possible
- Do not eliminate the human factor

MNB is willing to assist the Little Rock SBA District Office in any way to meet the needs of the Arkansas business community.

Metropolitan National Bank is committed to the success of small business in Arkansas. Help us help Arkansas by ensuring that the SBA continues as a strong and important part of our business community and that the loan products remain intact.

Thank you.

Mister Small Business
Sam Hinton

Statement for the Record
Senate Committee on Small Business and Entreneurship
Hearing: "Small Business Assistance in Arkansas: Access to Capital and Service Delivery"
February 19, 2004

Charles King
Executive Director
Arkansas Regional Minority Supplier Development Council, Inc

The Arkansas Regional Minority Supplier Development Council, Inc (ARMSDC) is a private Non-porofit 501c3 organization. We were established in 1978. Our mission is to promote the development of business opportunities between Minority Business Enterprises (MBE's), corporations, and governmental agencies. ARMSDC undertakes a number of activities to accomplish its mission. These activities include but are not limited to: Certification of MBE's, Facilitation of Business and Contract Opportunities between minority vendors and the business comunity, MBE traninig workshops, Annual Business Opportunity Trade Fair, Other networking opportunities, Technical assistance, Advocacy efforts.

Our membership consists of the most recognizable and respected corporations in America, including Wal-Mart Stores, Alltel Communications, Comcast, Nestle, and Enterprise Rent a Car. Our members rely on us the produce qualified minority businesses to respond to procurement and contract oportunities. These companies are very reliant on Small Business Administration programs. The support offered by SBA is in many cases the only assistance available to allow SDB's to compete.

The programs that are most crucial to the minority business community in Arkansas is the 7J program, HubZone program and Outreach officer. It is our understanding that these programs are at risk of severe cutbacks or total elimination. This would be a death blow to most minority businesses that are poised for growth in Arkansas. Most business owners would tell you that the number one need of minority business owners is access to capital, however, we believe that the true number one need is access to information, much like that offered by the 7J program. Small and minority business owners are most in need of help learning "How to" access availaable resources. They don't have the resources to hire someone to do what a large majority firm would hire others to do while they continue to run their business. The assistance offered leads to success for minority businesses in appying for badly needed capital. The SBA's 7a Loan Gurantee program provides over 80% of the loans to small businesses in our area. The terms are easy on the already strained pockets of small businesses. One example is Davis Petroleum Company, (DPC) a small supplier of anti-freeze and petroleum lubricants. In 1999 he received a 7a loan of $250,000. This allowed him to expand his business and hire additional employees. As a result of the assistance Mr Davis received he was eventually named by the U.S. Defense Systems in Richmond, VA as the "Top Quality Supplier". That is the organizations highest award. The assistance DPC received along the way allowed him to be prepared to receive this recognition as the Defense System was able to recieve top quality service from a supplier who happened to be a small-disadvantaged business.

In Arkansas over the last 5 years the SBA has issued approx 1,744 loans. These loans had a value of over $422 milllion dollars. 300 were to minorities. 473 were women and 276 were veterans. So far this year the agency has issued 158 loans with 17 minority and 30 women loans. 28 loans went to veterans. As a rural state over the last two years 194 loans were made to rural areas- 2 years is the longest tracking available for rural loans. Only 14 Arkansas cities are considered urban.

It is our opinion that the overall budget request which is 15% less than last years budget is a terrible disappointment. Small businesses account for a majority of the jobs created inthis country each year. The quality of work is high and the pay allows families to pay their bills, taxes and provide for the betterment of the community. The SBA has become the life blood of this industry of small businesses. Continued cuts would only serve as a death blow to the continued growth and development of one this countrys most vital resources- the small business. We humbly request that the SBA not be cut and funded fully to allow the continued operation of the important programs we have discussed.

Prepared Remarks of Philip Knight
Executive Vice President
ANB Small Business Lending

Senate Committee on Small Business and Entrepreneurship
"Small Business Assistance in Arkanss: Access to Capital and Service Delivery"
February 19, 2004

Caps and suspensions of lending (lending holiday) are detrimental to overall program goals and credibility of economic development and stimulus, cause lending partners and small business constituents to lose confidence in SBA and its overall viability. Will it be there when we need it? If we can't count on it, why try to keep up to date with the training required to be SBA savvy or why market it to our customers?

Personnel reassignments have caused delay in liquidation process, without any indication from SBA as to when case resolution will resume. There has been no communication from SBA since local liquidation officer was retired and loan files were forwarded to a central office (right in the middle of the process). The word is out that the SBA no longer wants to discuss the liquidation cases and is discouraging their personnel from talking to us on the phone. We are to be directed to a website for assistance. Not only is this not very good customer service, it creates an adversarial relationship, will ultimately cause a lack of confidence in the guaranty process and will no doubt cause a lender to think twice about making any future SBA loans. Again the result will be less capital available for Arkansas small businesses.

SBA transformation plans apparently include moving all loan processing functions from our local district offices to a central office or expanding the entire 7(a) program into SBA Express with reduced guarantees. Neither option is good for small business because it will most likely result in fewer loans being made and less capital being available for small business. SBA has not communicated with its lending partners; especially local community banks that dominate Arkansas small business lending. We have to rely on third party sources to keep us informed on the constantly changing environment of today's SBA. The SBA did not seek our input on the reduced guarantees. Most small banks are not willing to accept that much risk these types of loans.

The Arkansas district office loan personnel provide daily assistance to both lenders and applicants. They are available to answer technical questions, as well as to provide advice as needed, often conferring with us on eligibility, structure. and other specifics of a particular complex loan issue. Not everything fits in the black and white category. They conduct training for lenders and informational seminars for clients. Without their help, many lenders will be unwilling to participate in SBA lending and will certainly be unwilling to accept the higher level of risk of "flying solo" with a reduced guaranty. What does that mean? Less money for Arkansas small businesses and a negative impact for our state economy.

SBA District personnel talk to and meet with small business owners and potential owners everyday. Without them, these people will be left with no resources available locally and will be directed to a website. Again, not good customer service. Nothing can substitute for a friendly face when you are looking for help. Senator, what would your constituents think if they had no way to contact you for assistance other than a website? Not everyone uses the internet.

Prepared Statement of Janet Roderick
State Director
Arkansas Small Business Development Center
Senate Small Business and Entrepreneurship Committee Hearing
"Small Business Assistance in Arkansas: Access to Capital and Service Delivery"
February 19, 2004
Little Rock, Arkansas

Senator Pryor, members of the Senate Small Business and Entrepreneurship Committee, I am Janet Roderick, State Director for the Arkansas Small Business Development Center.

Senator Pryor, on behalf of the Arkansas SBDC I would like to thank you and the Committee for inviting me to testify at this important hearing. It is an honor for me to represent the University of Arkansas at Little Rock, College of Business and welcome you to this facility built by funding from Donald W. Reynolds.

The Arkansas SBDC is the premier provider of small business assistance in Arkansas. As you know the SBDC program is funded by the U.S. Small Business Administration, the University of Arkansas at Little Rock, six other university partners in Arkansas and also with a great deal of support from the Arkansas banking community.

I would like to address three issues this morning; 1) the level funding of the SBDC program nationally, and its impact on the ability of the Arkansas SBDC to deliver services to the small business community, 2) the impact of the freeze and cap on the SBA loan programs on our clients, 3) SBA proposal to cut the SBA guarantee to 50% and expand the SBA express loan program.

The Arkansas SBDC program has been in existence since 1979, providing management and technical assistance to small businesses. The program continues to contribute significantly to the economic development in the state through the small businesses we serve each year.

We are one of the few economic development programs that measure our impact. For example, in the past five years our Arkansas small business clients have created 4,361 new jobs. These small businesses have obtained 228,576,874 million dollars in financing for their businesses. Senator Pryor, you can be very proud of the Arkansas Small Business Development Center, each year our economic impact as measured by an outside consultant has one of the most significant returns on investment of the tax payer's dollar in the nation. For every one dollar in federal funds spent in the Arkansas SBDC the Arkansas SBDC clients generated $4.86 in new federal tax revenues. This is a sound investment for taxpayers with a significant return.

The SBA funding for the SBDC program nationally has remained at level funding since 2000, prior to that the last SBA increase was in 1994. In 2000 the funding formula was adjusted and approximately half of the states received a funding decrease with an increase going to the less populated states. Arkansas received a modest increase of

$6,182, not even near the rate of inflation. In order for the Arkansas SBDC to continue to provide services to the small business community, the SBDC has relied heavily on reorganizing, working smarter, using technology to deliver services and of course an increase in support and funding from our universities.

Two examples of how the Arkansas SBDC has been working smarter are first the Arkansas SBDC was one of the early adapters of the internet and website utilization. With the assistance of Aristotle, a private business in Little Rock, the SBDC recently redesigned our website to provide information as a small business would use it. In 2003, we had over 305,000 visitors, the most popular downloads were the feasibility workbook with nearly 26,000 downloads, the list of business plans, 69,685 downloads and the new venture guide with over 8,000 downloads. The second example of working smarter is the SBDC ENews bulletins which are distributed electronically. Biz Facts is a twice monthly bulletin providing general business information, government regulation updates and details on upcoming small business training events. Tech track is a twice-monthly bulletin focused on providing technology news, grant opportunities and SBIR/STTR information to Arkansas growing high tech firms.

While we continue to work smarter, I also mentioned we have reorganized. This reorganization has caused us to reduce the number of SBDC offices in Arkansas from 12 to 7. This means that the central Arkansas SBDC office has 18 counties to serve, and the Northeast SBDC office has 15 counties to serve.

Senator Pryor, when we talk about funding for the SBDC program we are not talking large sums of money. Doubling the funding level for small business non-credit assistance programs at SBA would be less than a rounding error at virtually every other federal agency. If Congress is in fact committed to stimulating job growth, then continued neglect of management and technical assistance for small business should no longer be viewed as a viable budgetary option for our nation. The SBDC program for FY 2005 needs to be funded at its currently authorized level of 125 million. America's small businesses need and deserve no less. The administration's proposed SBA budget calls for funding the program in FY 2005 at 88 million. That level of funding will not preserve the program at its FY 2001 level in real dollar terms. At an absolute minimum, Senator Pryor, I hope you will advocate that the program be given enough resources for FY 2005 to match what it received in FY 2001 in real dollar terms. That figure would be $98 million, which would result in an increase for Arkansas of $XXX. The bottom line is that here in Arkansas in the past ten years the SBA has increased their funding to the SBDC by only 4.1%.

These figures do not include other efforts by the SBDC program, we have received numerous grants from private sector, other federal agencies, other SBA programs, and of course we have earned program income from our training programs and banks.

Arkansas universities and banks recognize the positive impact small businesses have on the economy, and they have stepped up to the plate. Where is the SBA?

The end result of this proposal for small businesses in rural Arkansas will be:

- Significantly fewer small community banks using the SBA program with only a 50% guarantee
- Significantly fewer startup businesses being funded which will have a negative impact on community economic vitality.

    - More small businesses establishing and expanding operations by using credit cards with oppressive interest rates.
    -
    - Those small businesses that do receive a commercial loan (which will be without an SBA guaranty) may jeopardize their company futures by accepting unfavorable terms such as short-term loan maturities with balloon payments, while having no assurance that these bank notes will be renewed when they come due.

Senator Pryor, I have emails from several banks located in the Northeast part of the Arkansas who responded to an email from the Herb Lawrence, the SBDC Center Director at Arkansas State University, concerning this SBA proposal. I will be happy to provide them to you and this committee.

In closing let me say Senator Pryor, you have repeatedly spoken out against government policies that were not in the interest of Arkansas' small business sector. I hope you will speak out against what I fear is the gradual dismantling of the SBA and the continuing failure of the government to adequately fund small business management assistance programs.

Thank you.

The cap and the temporary freeze on SBA loan program had and continues to have an impact on our clients. When the freeze went into effect 25 SBDC clients with a total of over 8 million in loans were somewhere in the process. These clients were alarmed and of course concerned about their businesses. The SBA District office here in Little Rock worked very hard to do the "right thing" for the small businesses owners caught up in the freeze and the lowering of the cap. I want to recognize the district SBA office for its efforts and concerns for the Arkansas small businesses.

Since that time, the freeze has been lifted. However, the lower loan cap of $750,000 remains in affect and still has negative impact on our clients. More often than not, these are the businesses that have the potential for a significant impact on job creation.

Let me give you an example. An Arkansas based technology business is poised for tremendous growth. This business has been in operation for more than a decade, has a nationwide customer base, and employs approximately 30 people. After years of research and development, the business has recently launched a product. This new product has already generated national exposure on news outlets such as CNBC and fueled excitement in their customer base and beyond. In order to finance this growth this business worked with an SBDC consultant to develop an SBA loan proposal in the amount of $1 million. Then with out much notice, the SBA lowered the cap. This new SBA loan cap of $750,000 is a barrier to this business as well as many other businesses in Arkansas and across the nation. These businesses need capital to grow and prosper, and the SBA loan program provides access to capital that might otherwise be unavailable. This new loan cap punishes successful, established businesses that aspire to take their business to the next level.

The third issue I wish to speak on concerns a news release from the SSBA dated February 14, 2004. The SBA is proposing to cut the SBA guarantee to 50%, increase the cap to 2 million and have lenders apply using their own forms and processes instead of "lengthy and burdensome government forms." The SBA says this will add 500,000 jobs. This might be true for big cities and large banks, but not in rural America.

Senator Pryor, as you are aware, startup funding provides a real challenge to small, rural community banks. While these banks are active members of the community that the small businesses will operate in and have a vested interest in helping provide capital for economic growth, the lenders are also well aware of the risks involved with small business operation. The problems of survival rates for small business startup, the inherently limited collateral of assets available to be pledged to secure the loans, equity injection requirements, and in some cases previous credit issues makes it extremely difficult for the lender to provide commercial loans without a guaranty program. Many of the commercial loans made to start-up business in Arkansas are for $150,000 or less, which the SBA currently provides an 85% guaranty. For many of the SBDC clients it is the bank's ability to receive a 75% or 85% guaranty that is the critical element to receiving bank participation for the venture. Although the lenders hope that they never have to liquidate the loan and the business will be successful, they are well aware of the survival rates of small start-up operations and rely upon this guaranty to secure the loan.

Prepared Statement for:

C. Sam Walls
Executive Vice President
Arkansas Capital Corporation
February 19, 2004

Like the U. S. Small Business Administration, Arkansas Capital Corporation was formed during the 1950's to assist small businesses with long-term financing options that were going unmet in traditional capital markets. Also like SBA, our parallel missions continue today.

In Arkansas, as in numerous other states, small to medium-sized businesses have the highest potential for growth of any sector of our economy. And, although improving, the current economic climate continues to be a very difficult one for small businesses to successfully navigate. It is in that light that Arkansas' small businesses can ill afford an under-funded small business loan guaranty program.

Let there be no misunderstanding - Arkansas Capital Corporation fully supports the SBA's mission and understands the agency's importance and impact on Arkansas' business community. We cannot afford another "lending holiday" or further cuts to this vital program. It is imperative that Congress and the current Administration agree to fully fund this economic development stimulus program.

Senate Small Business Committee
Testimony
Joe David Watts
February 19, 2004

Back on September 10, 2003, I received notification via Federal Express that SBA had engaged in a systematic review of its programs and business processes. As a result it had become apparent that some long-standing processes could be streamlined and made more efficient.

SBA's review concluded that the loan liquidation practices and oversight of this activity conducted by participating lenders is outdated, does not reflect best practices of the lending industry, does not take full advantage of current technology and cost too much on a per loan basis. I would like to see them back this up and know what technology they are referring to.

SBA targeted almost everyone nationwide that spent at least 25% of their time doing liquidation activities to be reassigned to Herndon, VA. with some exceptions; Alaska, Maine, North Carolina and a few other states. This was based on an Administrative Cost Allocation survey that everyone did back in April 2003. Not that it would have made any difference because liquidation was my primary function but I did not fill out the survey properly as most didn't. In a small office, we all have to wear many hats during the course of day business and do not keep time sheets for every activity as we might fill in for someone else.

SBA offered an early out to some employees. On September 30, 2003, Ramon Chapa, the other liquidation loan officer in the Arkansas District Office was coerced to take early retirement and left the agency. At that time that left me as the sole liquidation loan officer and I had to pick up his portfolio also.

After Ray left I had well in excess of 275 loans in various stages of liquidation. I worked with lenders from the time the loans went into liquidation, to instructing them to what SBA will require for purchase, reviewing the purchase documents and the actual purchase of the loans. Most of our lenders are local or small town lenders and not your major bank systems.

December 2, 2003 I received my notification that I had been selected for reassignment to Herndon and had until December 15, 2003 to either accept or decline. On December 15, 2003 I did accept the reassignment but stated that I did so under duress for fear of loosing my job. On January 6, 2004 I notified SBA that I had changed my mind that I withdrew my acceptance and planned to retire instead.

I wanted to work until January 30, 2004 to help get things cleared out before I left and to help the office out because they are so short handed. SBA would not allow this. They said

that because I was suppose to have reported to duty in Herndon on January 20, 2004 that I would be placed on inactive pay status effective the 20th. So I had to retire on the 20th.

When I left, none of the files had been shipped nor had they even been notified that they could even ship the files to Herndon yet. Since then they have at least been notified that they can ship the files to Herndon but this is a major undertaking that takes many man-hours of work and the files still have not been shipped yet. You have lenders that are being held in limbo waiting on the files to be shipped and even after the files are shipped you can look for delays before they are worked in Herndon.

The ARDO has not had a District Director in over a year. Linda Nelson was the Acting District Director and did a wonderful job but you see how the agency rewarded her for that. They reassigned her to Herndon.

My biggest concern is what is going to happen to the Arkansas District Office, the small business community and our lenders. As it stands right now, the ARDO has 13 employees (9 professional possessions and 4 clerical). One of those professionals will retire in April or May of this year, which will leave only 12 employees. Rumor has it that the loan division is the next division and it will be coming real soon. They are to open two processing centers, one in California and one in Kentucky. If this happens the office will stand to loose another 4 professional employees. That will only leave you with an office of 8 employees. Do you think they will keep it open?

Our office had worked hard the years to gain the trust and admiration from the community and the lenders in the state. We were able to provide close and personal service to these lenders; you must remember this is Arkansas and not New York or Washington. It is only my opinion this will only alienate the local and small lenders from SBA.

Statement for the Record
Senate Committee on Small Business and Entrepreneurship
Hearing: "Small Business Assistance in Arkansas: Access to Capital and Service Delivery"
February 19, 2004

Odies Wilson, III
Chairperson
Arkansas Minority Business Development Roundtable (AMBDR)

The Arkansas Minority Business Development Agency is a U.S. Department of Commerce funded national demonstration project. The mission of the AMBDR is to provide technical and financial assistance, training and information to the state's minority business community. During the past year the AMBDR has provided funding to supplement the minority business development efforts of eighteen Arkansas services providers. The AMBDR efforts resulted in over $32 million in contracts and sales to the participating MBEs.

During the last decade, the growth in the number total number of small businesses has substantially increased, yet minority businesses have not fully participate in the growth, and financial opportunities that exist in our state and nation. This is a result of several factors usually beginning with the lack of personal assets. Minority households traditionally do not have the asset base or family wealth that exists in the majority community. Many minorities also lack the awareness of current business development and capacity building opportunities that exist in their state and local markets. Artificially high credit standards remain as one of the most substantial barriers to minority participation to loans, lines of credit and other financial instruments. Finally, the most serious barrier to minority business development is not having access to the adequate capital required to compete with majority firms and sustain high-level growth and productivity.

The survival and growth of minority business development is dependent on the strategic and substantive support and assistance of the federal government. The Small Business Administration and Minority Business Development Agency of the U.S Department of commerce role in assisting small and minority business development should be increasing instead decreasing. Just as we are investing in the rebuilding of Iraq and Afghanistan, we should be investing in rebuilding America's small business economy. Federal assistance is needed now, more than ever before. Perhaps, the most critical need is to place a very high priority on micro-loans that assist entrepreneurial start-up businesses and sustain existing minority business owners. Support is also needed to maintain information systems that increase minority access to current and upcoming contracts and economic development projects.

Small businesses are the backbone of America's growth in jobs and economic activity. Special efforts must continue support the growth of minority businesses, particularly African-American and Hispanic businesses. The growth of minority businesses has a repelling positive effect thought the total community. Tax burdens become taxpayers, potential criminals become successful entrepreneur and new investors in the American dream are created.

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