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VETERANS ACCESS TO CAPITAL

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BEFORE THE

SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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VETERANS ACCESS TO CAPITAL

TUESDAY, JUNE 21, 2005

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Subcommittee met, pursuant to call, at 2:05 p.m., in Room 311, Cannon House Office Building, Hon. Todd Akin [Chairman of the Subcommittee] Presiding.

Present: Representatives Akin, Kelly, Poe, and Bordallo.

Chairman AKIN. I have got a little bit of bad news relative to our time schedule. Supposedly, a vote is going to be called in a minute and a half to 2 minutes. So I think what we are going to procedurally do is I am going to go ahead and read the opening statements, and then we will adjourn temporarily for a recess, that is the word I was looking for, a recess for probably—it is a 15-minute vote, and then a 5-minute vote after that, so I would think, perhaps, in total, it will take about 20 minutes for the recess. That is the actual vote right now. So we will do that, and then come back and pick up. I am sorry, I don't schedule the votes, I just have to vote when they call.

Good afternoon. I would like to extend a warm welcome to those of you who have taken time out of your busy schedules to testify before the committee this day. We are here to discuss the current obstacles that prevent veterans access to capital, and more specifically, the barriers that self-employed Reservists and Guardsmen face in maintaining financially solvent businesses during deployment.

As we all know, small businesses play a critical role in our economy. Small businesses pay a major portion of our Nation's taxes and employ a majority of our workforce. In fact, small businesses employ approximately 18 percent of all Reservists who hold civilian jobs. Moreover, the Congressional Budget Office estimates that of the 860,000 Reservists in the Selected Reserves, approximately 9 percent are self-employed. And many self-employed Reservists experience economic hardship, both during deployment and after their tour of duty.

According to one Department of Defense survey, 22 percent of the Reservists who had recently been activated said that the damage done to their business was a serious or very serious problem.

To date, there are several Federal programs that have been set up to assist these small businesses. Bill Elmore, from the Small

Business Administrations Office of Veteran Business Development is here to discuss some of the programs, and how our soldiers may take advantage of them. Welcome, Bill again.

And then Don Wilson, president of the Small Business Association Centers, SBDCs, will provide us an insight into the role SBDCs play in providing assistance to self-employed Reservists and veteran small business owners.

Ms. Patricia Kerr, Veteran Ombudsman for the State of Missouri, is here to explain to us the challenges faced by the soldiers, their families left behind, and the States responsibilities during their deployment.

And lastly, we will hear from Mr. Harry Alford. Mr. Alford is here in his role as the president and CEO of the National Black Chamber of Commerce. He will explain the impact on his members' business, while many of the owners and proprietors have been sent overseas in our recent conflicts.

Witnesses, I thank you for coming. And before we get started, I would like to greet my distinguished colleague from Guam, ranking member, who has now gone over in the finest of style to vote when she is supposed to, Congresswoman Bordallo, and invite her so say a few words. If she is here when I return, we will go ahead and let her have opening statement, and then after that we will just go to each of you.

I am going to ask each of you to do a 5-minute opening statement, and you know the little light in the thing there gets red when you run over your five minutes, and then after that we will do questions and answers.

If there are not too many people here, I like to run these things a little bit more as a discussion than having an excessive amount of formality. But we will need a little recess. I think there are probably some staff people to help you find the nearest Starbucks or ice cream place if you need it for 15 or 20 minutes until we are ready to go. Thank you all. The committee is in recess. Thank you.

[recess.]

[Chairman Akin's opening statement may be found in the appendix.]

Chairman AKIN. The committee will come to order. And we will now hear an opening statement from Ms. Bordallo, and our Minority Ranking Member and good friend of the committee, and a good friend of small business, proceed.

Ms. BORDALLO. Thank you, Mr. Chairman. And I apologize for being a bit late, but as you know, I represent the territory of Guam, so we do not vote on the floor. So that is why you saw me standing here during the voting process, I just want to explain.

Today, more than ever, our Nation's veterans are facing a myriad of challenges in starting and running their own businesses. From rising healthcare, regulatory and energy costs, veteran business owners are experiencing many obstacles to creating and growing their businesses, and I have seen this right at home.

In addition, many veteran business owners are either being deployed themselves or their employees are be sent overseas, making their job of running a business even more challenging, yet many small business owners have difficulty qualifying for traditional bank loans, and are all too often forced to use various methods of

financing, such as credit cards and personal loans to finance their business ventures. So that is why programs such as SBA's 7(a) loan program and the 7(m) micro loan progam are so important to veteran entrepreneurs. These programs are meant to provide entrepreneurs with an affordable and a sensible source Of capital. The 7(a) loan program provides 30 percent of all long-term loans. And in fiscal year 2004 alone, veteran business owners received nearly 8,000 7(a) loans for over $1.3 billion.

The micro loan program has a specific mandate, to target veteran entrepreneurs for assistance, and in 2003 provided nearly 200 loans, totaling 2 million, to these enterprises. So clearly, these programs have been heavily used and effective in giving veterans the affordable capital they need.

As the bill is marked up this week in the Senate, it will be up to the Senate to take the necessary action to ensure that capital is affordable and available to our Nation's veterans through the SBA's 7(a) loan program. And this is the first big step in lowering the increased fees that are currently facing our Nation's veterans small business owners.

Once this funding is restored, it will be important for this committee to focus on H.R. 1868, the Access to Capital Act, which would ultimately lower the fees on both small businesses and lenders. By doing so, Congress will ensure that this large source of capital is both available and affordable to the thousands of veteran small business owners that rely on it.

And that is my opening statement, Mr. Chairman.

Chairman AKIN. Thank you. Well, we will now proceed with the opening statements of the witnesses. And I believe I was corrected, they are to be 5 minutes long, and then we will just go into some questions afterwards.

And our first witness will be Mr. Bill Elmore, Office of Veteran Business Development, Small Business Administration, hailing from Washington, D.C. Bill, welcome, thank you.

STATEMENT OF BILL ELMORE, OFFICE OF VETERANS BUSINESS DEVELOPMENT, US SMALL BUSINESS ADMINISTRATION

Mr. ELMORE. Thank you, sir.

Chairman Akin, Ranking Member Bordallo, thank you for your invitation to testify today.

The committee is interested in barriers that confront self-employed Reserve and Guard members who, while activated, must maintain their viable small businesses back home.

The administration is fully committed to supporting Reservists who maintain or establish successful small businesses. We believe it is vitally important; we offer all of our assistance to every Reservist to minimize damage that may occur.

Reservists are unique in their dual mission of defending America, while maintaining their business. Their skills are vital to our defense and to their success in small business. This dual mission is a serious challenge, and simple solutions will not mitigate all the potential circumstances activated business owners face.

Thus far, through Administrator Hector Barreto's leadership, SBA has lead Federal government's efforts. Since 2001, our Military Reservist Economic Injury Disaster Loan has been provided to 228 small businesses for an average of $88,863 each. SBA initiatives include, special district office outreach, production of Reservist outreach and program tools, directing our four veterans business outreach centers to enhance assistance for Reservists, highlighting our Reservists programs in our Vet Gazette newsletter, and establishing a Special Reservist Web page on the SBA Web page, with reciprocal links.

We initiated collaborative outreach with DoD, providing SBA Reserve and Guard fact sheets, and program tools to mobilization and demobilization sites and to DoD personnel. We have produced thousands of post-mobilization business planning guides, and an interactive CD being distributed to 17,000 Reserve and Guard units, and to thousands of individuals, SBA programs, offices and partners.

I have presented at more than one hundred events and testified and briefed Congress about this. We provided guidance to our participating lenders and our certified development companies. And our disaster program, which manages the MREIDL program, provides priority processing to MREIDL loan applications and recipients.

We provided specific instructions to our 1,100 small business development centers, and SCORE has created a special initiative targeted to self-employed Reservists.

Two recent reports provide a basis for policy deliberations for self-employed Reservists. The first paper, prepared for the Assistant Secretary of Defense for Reserve Affairs, titled, ″Analysis of Employer Costs From Reserve Component Mobilization″ was released December 2004 by the Institute for Defense Analysis. I have a copy, sir, if you would like that.

The second paper was published by the Congressional Budget Office in May 2005 titled, ″The Effects of Reserve Call-ups on Civilian Employers.″

These papers provide a formative basis for substantive deliberations for Congress, for SBA, and for DoD. Both reports suggest cost consequences are greater for small business than large ones, especially for small businesses owned by Reservists. These papers raise fundamental questions of fairness and small business viability. They examine approaches that may mitigate problems, but make no definitive recommendations.

Clearly, we understand the issues faced by self-employed Reservists do not present a simple one-size-fits-all program answer. That concludes my verbal testimony, sir, and I welcome any questions you may have—and ma'am, excuse me.

Chairman AKIN. Thank you. You ended up redeeming 38 seconds of your time, Bill. You are doing very well here this morning.

[Mr. Elmore's statement may be found in the appendix.]

Chairman AKIN. Our next witness will be Mr. Don Wilson, who is President and CEO of the Association of Small Business Development Centers from Burke, Virginia.

Don, proceed.

STATEMENT OF DON WILSON, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. WILSON. Mr. Chairman, thank you very much, Ranking Member Bordallo; we appreciate the opportunity that both of you have afforded ASBDC to testify here today.

As you know, the Association of Small Business Development Centers represents the Nation's 63 small business development center programs in all 50 States, D.C., Puerto Rico, Guam, American Samoa and the Virgin Islands. That program every year serves about 750,000 small business and aspiring small business owners face to face in one-on-one counseling or in training sessions.

Roughly 8 percent of those are self-declared veterans. Last year we served approximately 60,000 veteran business owners, which exceeds the numbers of all other Federal management of technical assistance programs combined. We actually think, Mr. Chairman, that the numbers are larger than that because we are only speaking of self-declared veterans, and as Mr. Elmore knows, oftentimes veterans do not self-declare. So we anticipate that actually the number of our clients who are veterans may range as high as 12, perhaps even as high as 15 percent.

In February, when I testified before the full committee on the SBA budget, I brought to the attention of the committee that we were beginning to get very serious anecdotal evidence from our counselors in the thousand centers nationwide that Reserve call-ups were having a real impact on businesses all over the country. In May, Ms. Snow had the CBO study, and you have seen the articles in the Post and so forth, and it is very clear that problem is growing.

When a veteran is called up—I mean, when a Reservist is called up and is gone for a year or 2 years, it is absolutely, often catastrophic for the business. And capital alone is not the answer. It can be very, very important, and certainly the Economic Injury Disaster Loans that the SBA provides and that Congress has provided for are very important, and our counselors are some of the leading sources of helping Reservists and Guardsmen fill out their applications for Economic Injury Disaster loans. But the biggest issue is planning. One of the things we are most concerned about is obviously if you are a Reservist, you can be called up on 24 hours notice. And if you have not planned before then, the likelihood of a disastrous impact on your business is very real.

The publication that Mr. Elmore produces and that we think very highly of in our SBDCs, we distribute to clients, we keep them in our centers, and I commend SBA and Mr. Elmore for that publication, it is outstanding. One of the things it stresses is planning, planning before you are actually activated. And there is where SBDCs can come in and make such a real difference in working with the Reservist who has not yet been called up. I know one of the things that we are talking about with DoL and DoD and VA is including additional information about SBDCs and the TAP program for the people who are actually leaving the military. But what needs desperately to be done is for Reserve units to make anyone who is a small business in their Reserve unit, before they are called up, aware, you know, just tell them, look, the Federal Government has a resource for you. SCORE and women centers

and SBDCs can help you avoid many of the trouble spots if you will go work with them now before you are called up.

So the numbers are very real. I know when you talk about 850,000 Reservists and probably 400,000 are called up, or more, 480, I look at the numbers in the CBO study and I can assure you that the numbers that they estimate of small businesses impacted, I believe, are truly low. And you will see in my complete testimony, Mr. Chairman, that they could be, the complete testimony in the record, as one of those reasons.

So one of the things we want to do, we want them planning with there local SBAs, their SCORE chapter, their womens business centers to prepare for the contingency of leaving.

Now one of the things that we do so very well is that once they are gone, is that we work with their families, we work with the employees that are left. But it is not just when a Reservist is called up, it is when an employee who is a Reservist is called up. I mean, people talk about an essential employee, and if you are in a small business of 5 or 10, probably almost every one of your employees is essential. I mean, if you lose 2 people out of a 10-man firm, that is like a 500-man firm losing a hundred people. Imagine what that would be like. So that planning is absolutely essential for the people left behind, the training and the counseling that we can provide them while the Reservists or the Reserve employee is broad is very, very critical, and we are trying to expand that.

I have proposed to my board, Mr. Chairman, only yesterday that the SBAs across the Nation—I am waiting, they will have to approve that—that the SBAs across the Nation provide free training to every small business that indicates that they are a small business that has been impacted, either by the loss of the owner or a key employee going abroad.

So the program is there. It has got an amazing footprint with a thousand centers. We are prepared to assist—we raised this issue back in February, we are delighted to see the CBO and others paying attention to in this hearing, accentuating it, but it needs planning and it needs expansion of capacity for SBDC to be able to tend to the number that is coming to our doors.

Thank you, Mr. Chairman.

[Mr. Wilson's statement may be found in the appendix.]

Chairman AKIN. Thank you very much for your comments.

Our third witness is Ms. Patricia Kerr. And you are the Missouri Veterans Ombudsman for the State of Missouri.

Ms. KERR. Thank you, sir.

STATEMENT OF PATRICIA KERR, MISSOURI VETERANS OMBUDSMAN, STATE OF MISSOURI

Ms. KERR. Well, if I may, thank you for inviting me to be here. I have been the former president and CEO of the largest court reporting firm in central Missouri, as well as having two other successful businesses. I am intimately familiar with the requirements of a small business person.

Additionally, I am proud to say that I am the mother of a returned servicewoman, Captain Katherine Numerick, who is with me here today, and she deployed during rotation round of OIF. And also with me are two fine folks that are with Operation First Re-

sponse, Peggy and Steve Baker. And they work with the very injured out of Walter Reed.

We, in the State of Missouri, are very proud of the forward thinking of our governor, Matt Blunt, a veteran himself, and our legislative body, as we have successfully steered several bills through the 93rd Missouri General Assembly, including a Family Military Relief Bill, which we are excited to sign on Monday.

As a State Veterans Ombudsman, I work to bring the numerous government, private and nonprofit services together to assist our wounded and those military returning to their communities. In the last 7 months I have had the opportunity to coordinate private contributions for our wounded and financially strapped Global War veterans totaling close to 140,000, and have negotiated and kept several homes out of foreclosure.

Today, I received a call from Wisconsin of a Marine amputee who is about to lose his home. I have formed a national coalition with organizations like the VFW's Unmet Needs program, the Stan the Man Foundation located in Missouri and the Carolinas, USA Cares in Kentucky, Operation First Response out of Walter Reed, and the Coalition to Salute American Heroes in Virginia in an effort to maximize services and accessibility.

Several hundred of Missouri's injured military have worked with me to sort through problems they and their families faced. Having shared that background with you, I thank you for being interested and being on this team because it is you who drives the boat. And we believe there are four actions Congress can take to improve Global War veteran entrepreneurship.

First, assist with Federal funds for veterans ombudsman in each State's Veterans Commission, with sufficient support staff to provide a single point of contact. In-state personnel incorporate State and local specific resources and have the networks in place within the communities to quickly access referrals for immediate response to the needs of our return veterans.

Second, eliminate Federal business taxes for Global War veteran entrepreneurs during their mobilization and deployment.

Third, Federally support community-based organizations, underlining community-based organizations, such as the St. Louis Veterans Business Resource Center which has immediate access to financial and professional support resources that can quickly assist these Guard and Reservists.

Fourth—and this is a little bit of a—this one is tough—keep deployments in the Army at a shorter duration. For my doctors, shorter duration. For folks like my daughter, make it longer, get her home. You can't win for losing here.

Why would these four actions make a difference to our Global War veteran entrepreneurs? Nationwide, as you said, you said 18 percent of our military personnel are business entrepreneurs or desire to open a business. In Missouri, there are more than 25 percent of our total population are veterans. Folks, that is an election. Failure to support our Global War small businessmen and women will result in decreased benefit to local, State, and thus Federal economies, and continued peril in recruitment and retention for our Armed Forces.

How do I know this? Having worked with hundreds of military across the United States, I have also worked with mobilized Reserve physicians in our State who made 5 percent of their annual income based on their military salaries. The annual overall loss of business for these folks during the 4- to 6-month deployment cycle created a 60 percent net loss. While their acts of having other health care professionals cover their practice saved the practice, the impact of that amount of deployment and care under another practitioner may cripple the business in the short term.

Physicians are not the only service members impacted. Global War veteran businessmen and women own Postal Express stores, landscaping businesses. And one of our Marine Reservists has reopened his construction business for the third time.

Currently, there are Military Disaster Loans available through the SBA. I encourage our folks to use them. They have used them; they have benefited from them. Unfortunately, these are often too little too late. They need the dollars much, much quicker. Bill and I have talked about this. Even in the best circumstances, a service member must return home, reacquire the clients, do the work, bill, and wait to get paid; easily a 90-day cycle. If you add that to 120 days to get your loan through, they are without dollars for close to 6 months. Add to these the factors of personal, psychological and sometimes physical healing that must occur when our veterans return home.

For our wounded or injured veterans, their return to the United States does not provide access to their businesses. CONUS medical hold facilities are often far from home, and thus prohibitive for travel. Even at a radius of 50 miles one way with the new CBOCs can be cost prohibitive when you are working from behind.

Tax relief during mobilization and deployment will enable more Global War veteran entrepreneurs to maintain their businesses while serving overseas. Veterans Ombudsmans placed at the State level are capable of knowing national and State resources for veteran entrepreneurs, as well as developing and maintaining knowledge and relationships at the local level. No matter how willing staff at the VA, the SBA or one source entities may be at the Federal level, the volume of personnel, as Don said, and the diversity of available resources and resulting needs are simply insurmountable.

I want to stop a minute and tell you that I have been asked what makes this veteran business person of the Global War on terrorism any different than a previous veteran, or for that matter, any different than any other businessman or woman. I submit to you, and you know, September 11th. This is the first time since the Korean War that there has been a call-out to our military to this magnitude. The use of the States National Guard and Reservists put the military member back into civilian life after deployment without a strong military network, such as the one in place for active duty.

Federal participation with State programs is paramount to continued success for these brave Guard and Reserve personnel and their families.

Subject to your questions, I thank you for the opportunity to address this committee.

Chairman AKIN. Thank you so much for coming up here, Patricia, to testify, and for your valuable insight.

[Ms. Kerr's statement may be found in the appendix.]

Chairman AKIN. Our last witness is Mr. Harry Alford, and he is president and CEO of the National Black Chamber of Commerce in Washington, D.C. So you are nearby then. Thank you very much for coming over today.

STATEMENT OF HARRY ALFORD, NATIONAL BLACK CHAMBER OF COMMERCE

Mr. ALFORD. Thank you, Mr. Chairman, Ranking Member Bordallo, and distinguished members of the Small Business Regulatory and Reform Oversight Subcommittee.

I am honored to be given a chance to testify today about the challenges faced today by our most prized citizens, the U.S. Military.

The challenges are new and in sharp contrast to the environment faced by soldiers of the past. This Nation has always, in some form or another, recognized its veterans. Land grants, special bonuses and eventually the G.I. Bill of Rights have been used to honor the sacrifice of those who defended this Nation. The G.I. Bill of Rights, subsequent to World War II, is the firm reason for the development for the American middle class via opportunities in home ownership and education.

I was drafted into the U.S. Army in 1971. As a college grad with a prize job at Proctor & Gamble, a wife and a second child on the way, this was going to be a great financial challenge. In retrospect, I had two things in my favor, a strong faith in God, and an unconditional love for this Nation. In eight months, I was commissioned a 2nd Lieutenant and served 2 years of permanent duty at Dugway Proving Grounds, Utah. We made it through it all, and upon discharge I returned to Proctor & Gamble. It was assumed and realistic during those times that your civilian job would be waiting for you upon your return.

I had also had valuable benefits in terms of free education and homeownership. It made one so proud to love this country and have his country love him back. I am proud today, as ever, about serving my country.

Today's military is quite different. Many of those serving in combat zones do not exactly know the length of their tour of duty. Those in the National Guard and Reserve units can be called up suddenly and endure much financial pain and upheaval. To the business owner, this could be potentially fatal to his enterprise.

Today's economy is not big business or job-oriented as before. Small business is a growing and large entity in the United States economy. It provides 70 percent of all new job growth in this Nation. The percentage of business owners serving in the Nation's military is exponentially greater than during the conflicts of the past.

Upon returning from combat, an entrepreneur can find financial chaos, tragic things such as bankruptcy, credit damage and all the ills that come with that, such as domestic stress and emotional disrepair. The veteran benefits for today's soldier are lacking and don't address modern day society as they should. Let us focus in

on the veteran who is a business owner or is becoming a business owner. There should be some kind of benefits that apply to the modern economy.

Let me first say, before I make recommendations, it saddens me to hear people say that government guaranteed loans are needless entitlements, handouts or taxpayer giveaways. Members of this committee, these are not handouts or giveaways, the American veteran has a right to programs to offset the sacrifice made for this Nation. It is a debt owed to each and every veteran who has put his or her life on the line.

Many of these combat veterans will not be in that delivery room when a child is born; they won't be there to witness the first little league home run by their son; they won't be there at their daughter's baptism. No. They will be far away in a strange land catching hell. Far too many will not come back home, and far too many will not come back alive. These men and women lay it all out for the safety of each and every one of us. This Nation is too great and too proud to let its heroes go unrecognized. It is time to make the modern G.I. Bill of Rights applicable to the soldiers' needs of today.

The current 7(a) loan program SBA guarantee has been quite successful in developing new business and creating new jobs. It provides 30 percent of all long-term loans and is a proven job creator. Last year alone, the 7(a) program generated half a million jobs across America .That is one job for every $33,000 loan.

As these veterans return from combat, the demand on 7(a) loans is going to rise. We need to increase the amount of funding for the 7(a) loan program, at least reserve a significant pool for modern day veterans who can resurrect their business standing after their absence.

In addition to those veterans already in business, veterans who may consider entrepreneurship should also be encouraged to take advantage of the 7(a) loan program. Veteran incentives, such as lower fees and lower interest rates can be established. This is the least we can could do for our new heroes.

Finally, while a business owner serves his or her Nation for indefinite tours, his business suffers from its absence. This absence may extend to the point of damaging the growth of his business, or maybe even lead to the demise of the enterprise. As the veteran puts his life on the line to protect this country, we should provide him or her with some form of insurance that could provide some type of protection during his absence.

Key Man insurance, with affordable rates for the veterans business should be provided during combat tours. As the veteran protects us, we can protect his business with some form of alternative to financial collapse. Key Man insurance is not costly, and I believe a study should be done to determine the feasibility of the such a plan for the veteran business owner.

Key Man insurance, greater availability to the 7(a) program with special rates and fees should be considered for the modern day veteran who is an entrepreneur. A Nation that honors and respects its veterans is a Nation that can endure.

Again, thank you for this opportunity.

[Mr. Alford's statement may be found in the appendix.]

Chairman AKIN. Thank you, also again, Harry. On time, and gives us a little bit of time to have a discussion. We will start off a little bit formally with a few questions, but I hope people feel free to go back and forth—

Mrs. KELLY. Mr. Chairman, could I have a point of clarification, please?

Chairman AKIN. Yes.

Mrs. KELLY. It seems to me that this witness was testifying that the 7(a) loan program will help veterans. 7(a), as I understand it, is set at for minorities which will help women veterans only, and minorities, but it is not a program that is set aside that would help any—so you have a cohort of male veterans that would not be helped by 7(a). The 8(a) program, I believe, is the one that would avail the veterans more, and I would like a clarification of the way that law works.

Chairman AKIN. Actually, the 7(a) is open to everybody. Okay.

Mrs. KELLY. That is not the way I recognize the law in the past. Has that changed?

Thank you. I just got this clarification here. It apparently has, and 8(a) is the set aside.

Chairman AKIN. Right. That is right.

Mr. ALFORD. Mr. Chairman, if I may add, the 8(a) is not a lending program. It is a procurement program.

Mrs. KELLY. No. It is a procurement program.

Mr. ALFORD. It is apples to oranges. It is not a lending program at all, the 8(a) program.

Mrs. KELLY. No, I understand that it, it is procurement. And that is part of what we are trying to do. The fight we have with our veterans is to even try to get the DoD to raise up its procurement to the 3 percent that we have actually asked the veterans to be able to have. They haven't yet accomplished that.

I am sorry, Mr. Chairman, I didn't mean to get interrupted here.

Chairman AKIN. That is all right. You will have just a minute and be able to jump right in here.

I was going to step back just a little bit. You know, with somebody that has had some small business experience personally, I just can't imagine being called up and all of a sudden in a couple of days just dropping because small businesses are not loaded with extra resources, they are always lean at best, and then to all of a sudden have one or two key people taken out, it is a complicated mix, indeed.

I guess the question I had was, it would seem a little bit odd for somebody who was in that position in the small business to be on the Guard or Reserve in the first place, though, because you are opening yourself up to that possibility. It would seem like, to a certain degree, our first line of defense would be one of maybe preemptively to take a look at, you know, how do we warn people, maybe make sure that some people that really shouldn't be on the Guard or Reserve, that don't sign up for it. Maybe they are in a position where they just can't be spared by that business or their wife can't take over some part of something, and maybe they have made a mistake even to be part of that. So if you would respond to it. First the front end, the preventative side of it. And you can go in whichever order you would like. We will start with you,

Harry, and just go across and let each one of you make a comment if you would like.

Mr. ALFORD. Yes, Mr. Chairman. It makes a lot of sense what you are saying eventually, but I believe—let's start with the first Persian Gulf incident.

Traditionally, when I was growing up being in the Reserves and National Guard was a good way to participate serving your country without going to active duty or maybe even getting into a combat zone. But quickly and suddenly, being that there was no draft, and being that there was a need for military, up popped Reservists and National Guard being called in 1990, 1991. Now, there are some who may have had 10, 12 years invested into the Reserves and National Guard, and they want to make a career out of it, they have got this much time, so now they are still there at the time of Iraq.

So, I think that the military is showing that their recruiting is lacking today because there are a lot of people making that decision; I can't afford to be called up all of a sudden. Eventually we are probably going to have to face the music and go back to the draft, which I wouldn't object to at all, being a draftee.

Chairman AKIN. I was a draftee, too, and I would argue about that, but this isn't the right hearing to argue on that subject. But go ahead, Patricia.

Ms. KERR. Well, and if I may, in Missouri, of course, a lot of the communities are very rural and a lot of families rely on that extra income for the Guard and Reserve. In this particular instance, with OIF and OEF, folks found themselves with 3 days notice. And I will tell you, at our house, our daughter called as she drove off to drill and she said, mom, will you put dad on the phone, I have got to tell you something, that was leaving her 13-month old. There was no opportunity to make a plan.

Did we know that war was a possibility? Absolutely. But at that point you couldn't make a plan, and you certainly couldn't do planning for your business, and you couldn't get out of the Guard or Reserves because stop loss was immediately in effect. And what tour Guard and Reserve officers are finding, unless they are eligible for retirement, and they submit catworks of VF1, they submit their officer's resignation, it is coming back as denied. So while we don't have an in-your-face stop loss, it is actually in place.

So I think we are well past that. We have been at this, we are in our third year now, and these folks have to have a fix that they can recoup their losses that they have already incurred. The majority of them, the greatest percentage have gone and are now going again. And it is a matter of either their spouses didn't have the wherewithal to run the business, they had employees they could not depend upon. The doctors, Dr. Young told me as I was writing my testimony, that Pat, I paid six doctors to cover my business, I kept my employees on line, and I came back and I was nearly bankrupt. And he is a nephrologist and looks at deploying again. We have an ER doc that is leaving for his third time—in fact, I think he left this week.

But you put all those pieces there, and then you put our guys and gals back with an injury, and the injuries, as all of you know, are very significant, and they can't do it. They are sunk. So I don't think that we can go backwards for what we should have done, I

think that we have to fix the losses that they have incurred in some manner, and then find a way to—they don't have time to make a million phone calls, you know, one phone call they have got to be able to get the answer because they come back so quickly and they have got to hit the roads running so fast. And then they have got their families wanting their attention, they have got their employees wanting to know what they can do differently, and frankly it is too much. And when you partner that with 1 in 3 or 1 in 5 with—have some element of post-traumatic stress, it is way too much.

Chairman AKIN. Couple of quick comments and then my time runs out, too.

Mr. WILSON. We have 25 million soldiers in the country, self-employed. I am not sure it is practical to say to those, okay, the risk is too great to you to be in the Guard and Reserve. I don't know if our national security can let 25 million self-employed people say, okay, we are not going to go into the Guard and Reserve because the risk to our business is too great.

Doctors, for example, we have got to have medical people in the Guard and Reserve for when an action like Iraqi Freedom or whatever occurs. So I am not sure you can exempt them. And many of them want to serve, they want to serve their country, but they would like to have some assistance when they are suddenly picked up and moved to a foreign land, some type of assistance for their government to help them keep their business afloat.

Chairman AKIN. Maybe you are answering my question a little bit too narrowly. When I said preventive, I didn't mean to say they can't, I am just simply saying that in some cases it may be that they can structure their business in a way that if something happens, they can handle it. Other cases it may be that no matter how they structure their business, it can't handle it. And maybe those are the ones we ought to look at them and say, boy, we would love to have you sign up, but the cost may be more than you can afford.

And then the other piece of it is, and I think that, Patricia, you were implying this, and that is, if you really want people to be in the Guard and Reserve and they have small businesses and the small businesses can't afford to let them go, then is it the policy of the Federal Government to pay them for their losses. Those are all questions. But they are all what I sort of think of in the preventative side of things in a way.

Well, Bill, probably that question will come up again. And we have got people on short schedules. I know certainly that Ms. Kelly wants to speak, but first of all we have got to go to our majority leader—minority leader.

Ms. BORDALLO. Ranking. Whatever you want to call me, Mr. Chairman.

Thank you, thank you very much. I have a question for you, Secretary Elmore. SBA has approved about 228 loans from the military Reservists, Economic Injury Disaster Loan Program over the last 4 years; is that a correct statement?

Mr. ELMORE. That is correct, ma'am.

Ms. BORDALLO. In that same period of time, almost 1 million men and women have cycled through Iraqi and Afghanistan, and about 250,000 of them Reserve and Guard. Now you estimate that

30,000 are small business owners, yet we have only provided the equivalent of one loan per State per year to these returns veterans. Is it possible that despite your efforts, our troops are unaware of this program?

Mr. ELMORE. I think it is clear that—and we have done a lot of outreach, and I tried to focus on that in our testimony, but there certainly are lots of soldiers who still don't know explicitly about these programs. And I think part of it is attributable to the timing questions. If you are activated and you have 3 days or 3 weeks notice, you have a full range of things. If you just go to the National Guard Family Support Web site, they have about 12 documents posted there that if you download it, it totals somewhere in the range of 2,000 to 3,000 pages. So there is an enormous amount of things that these soldiers and their families have to go through, sometimes on very, very short notice.

So we have tried to focus on getting the information into their hands as they go in and when they come out, and through our outreach with DoD and through our reciprocity with the Web pages, trying to get that information out there. But clearly, the numbers of people that have been activated, and I think based on conservative estimates, the numbers of business owners that have been activated, we are—I don't want to say surprised, because I am not sure that a loan program like Mr. Wilson said is always the answer, but we are surprised by the lack of use of the MREIDL program itself.

Ms. BORDALLO. Yes. I certainly agree. And I think, Mr. Chairman, this is something that the agency should look into. Somewhere there has got to be better communication, better ways of allowing these veterans to know what is available to them. And this is just unacceptable to me.

Mr. ELMORE. One of the points that I made in the testimony is the interactive CD that we produced has the MREIDL program on it and all of the application forms themselves, and we are mailing those out to all 17,000 Reserve and Guard units, addresses that DoD provided us. So we are hoping through that to get this information into their hands. Now obviously if you send it to a unit and the unit has been deployed, there may not be someone there to receive it. So no matter how we approach this, there is always going to be gaps in this.

I think some of the things that Don mentioned, perhaps what the State of Missouri has done, for example, with the State ombudsman, because I have gotten to know Pat Kerr now over the last 6 months or a year that I discovered there was a person in Missouri who was paying attention to this from a State perspective, and I found it very important and valuable to be able to talk with her, and to send her these same materials so as she engages with these families, she can help them know what is available from us.

Ms. BORDALLO. So you are working through the State and territorial SBA offices?

Mr. ELMORE. We are working through every SBA district office. We are working through the regional offices. We have provided information now to every State Office of the National Committee For Employer Support of the Guard and Reserve, we have gone out to the small business development chapters, we have gone to the de-

velopment centers, we have gone to the SCORE chapters, we have gone to the veteran service organizations. Every place we can think of where these men and women may come in touch, we are trying to get our information out to them to try to mitigate—

Ms. BORDALLO. Well, I might just say you are working on it, but I still feel that maybe we should continue, because these numbers here just, you know, are not acceptable to me.

I have a couple follow-up questions, Mr. Chairman.

You have heard other testimony that it is too little, too late, and it takes 120 days for a returning veteran to get his money. Now, would you say it is being used by business owner troops effectively?

Mr. ELMORE. Back to me, ma'am?

Ms. BORDALLO. Yes.

Mr. ELMORE. I think it is effective, but what you need to understand, this is a disaster loan and it is in our disaster loan portfolio, that is where Congress chose to put this loan. So by its nature, it is restrictive, and it requires certain paperwork processing. We have to have certain affidavits provided to us, for example, before we can begin to disperse those funds, because we have to be able to demonstrate in the files an ability for the loan to be paid back, which goes back to the point Don said, access to capital or access to loans—and I think I said this in my written testimony—additional debt for some businesses that are being damaged by an activation may not be the best solution.

So we don't believe—and I am going to reiterate again what Don said, we think this business planning, we think the suggestion that you made, Mr. Chairman, if you look at the CBO report, which I tried to reference because there is a lot of detail in there, one of the options that they touched on was whether or not DoD should take a different approach to activating Reserve and Guard. I am not suggesting that is the solution, but certainly that is one of the issues at play here, business owners that are in the Reserve and Guard, and the level and the pace of activations and the kinds of resources that are available to them before they are called. DoD used to, before September 11, 2001, used to provide exemptions to some people from activation, they still do that; but the pace of those exemptions, given the war demand, have gone down significantly. So I am not trying to cast any—anything negative towards DoD, they have really been a good partner for us, but this is a really broad question that I think the circumstances of individual business owners enter into this as much as the circumstances as being activated itself.

Ms. BORDALLO. Does anybody else on the panel wish to answer that or comment on it?

Mr. WILSON. Well, I think one of the issues, Ms. Bordallo, is obviously folks have got to often have collateral, and some of them are unwilling to put up their homes; they simply don't want to take that risk. And that is—and there is no question there are many who do not know about them. Some of them, you know, I don't say that the paperwork is overwhelming, some of them don't know, and that is, to some degree, our fault, the resources in terms of marketing what we do, SCORE and so forth. But filling out those applications and having, I believe it is bill 3 years of financials and that sort of thing, the person has been gone away 2 years and he comes

back, trying to put all that together to get those applications filed and get them reviewed and so forth.

So I think—I mean, I am somewhat surprised, as you are, by the numbers, but the loans are available, and there are a number of folks out there who can help walk them through it. It may be a choice that they don't want to go into debt like this.

Ms. BORDALLO. One final question. The two of you, I guess, if you would like to answer it. Should we then concentrate on making the 7(a) loan program more attractive to them, since the program made about 7,000 loans to veterans in 2004 alone. Would you support lowering the fees for such loans to veterans?

Mr. ELMORE. I think if the agency received that question from Congress, obviously we would have to take that into consideration in our legislative approach in what we are preparing to come back to you now with. I can't give you that sort of an answer here in this forum, ma'am. I can tell you that the 8,000 or so loans that we made in our 7(a) 504 loans in 2004 was a significant increase over the previous year.

Ms. BORDALLO. So it is 8,000 instead of 7.

Mr. ELMORE. It was a little over 8,000 loans in 7(a) 504 and micro loan—I don't have the exact number in front of me. But compared to 2000, for example, I think we were in the 4,000 loan range. So we have had a real significant growth in the number of loans we make to veterans, including Reserve and Guard.

But again, access to capital, while it is critical for many small businesses, for a business that is at risk for damage may not be the final solution for many of them.

Mr. WILSON. And ASBDC is always concerned about the cost of access to capital. And years ago, when there were various coalitions, the Chamber and Nagel and others who were concerned about the stability of the 7(a) program, we were very concerned that there wasn't adequate dollars for subsidy. Congress, in its judgment, has decided that the best way to stabilize that program, certainly a year or so ago, was to do away with the subsidy and increase fees.

There are various people that take different—the number counts and so forth, what is happening with the number of 7(a) loans, whether or not those increased fees have reduced the loans or reduced the size of loans, or whatever. But I can assure you that our counselors are always concerned about what it cost a small business person to get access to the 7(a) program.

Chairman AKIN. I need to jump in here because we are supposed to run about 5 minutes. And Mrs. Kelly has been very patient and has some questions I am sure. Why don't you jump in here now.

Mrs. KELLY. Thank you very much, Mr. Chairman.

There are a couple of things that go through my mind right now. First of all, the SBA has had an excellent program called SCORE. It happens that in my area, SCORE is extremely effective, they do a great deal of outreach, if my area were to service to serve as a model for the rest of the Nation, it wouldn't be impossible, once a Reservist is called, to immediately put a SCORE person into that business the next day and quickly divine a business plan that would keep that business operational.

That would be, if you had something like a retail business where you could rely on other people who new the business. Where you have a doctor with a unique set of skills, and that business will definitely fail, I am wondering about whether or not the SBA would ever consider something like a set figure revolving fund that could be drawn upon to rescue, if you will, at least at a certain level that small business until the doctor got back to the community, or the individual with the unique set of skills got back to the community.

If you owned a garage, you are a mechanic and you are the mechanic for your village and you get called up, has anybody ever talked about the possibility of some sort of way to at least pay off—continue to pay the mortgage on that garage and the tools, or whatever, so that there is some kind of a way, even if it is a 1 percent interest on a revolving back? We do state revolving funds on various things, we do other revolving funds. There is a model there. Have you ever thought about that?

Mr. ELMORE. If I might, ma'am, let me try to answer both questions. SCORE actually has been very good on this, and they have created a special counseling initiative and it is specifically targeted to Reserve and Guard. As you know, 50 percent or more of SCORE's counselors are veterans themselves.

Mr. ELMORE. And Ken Yancy has been really very good and very active and supportive on this. And I try to help, through my presentations, actually to recruit additional volunteers for him.

On the idea of a revolving fund, or whatever it might be, I think what I might do is suggest you look at the Congressional Budget Office report that just came out this last month, in May, and look at that, that Institute for Defense analysis. They both give you a range of potential approaches to try to mitigate the problems that we believe these business owners face. And some of those suggestions, that they at least talk about, do include special access to capital and talk about revolving funds and grants and a range of things like that.

So I think instead of asking me to sort of make policy on the run, you have got a couple of entities that have already given you some policy suggestions for your consideration;and I would urge that you look at those.

Mrs. KELLY. You have read those reports, I haven't.

Mr. ELMORE. Yes, ma'am.

Mrs. KELLY. Is a revolving fund one of those suggestions?

Mr. ELMORE. I don't think they mention revolving funds per se, but they do talk about special access to capital. They also talk about grants, they also talk about tax abatement, they talk about special technical assistance, they talk about the effect of the kinds of Reservists that are activated and called. So there is a full range of things that both of those things touch on, especially the Congressional Budget Office paper which has been only out a month.

Mrs. KELLY. Having done a lot of disaster work on SBA, on straight disasters in my area, I am very careful to always specify, when I talk to Chambers of Commerce and any other small business group, the fact that if your business is failing, it is still going to be failing even if they give you the money to make yourself whole, in all probability, so you need to take a look. That is why I'm concerned about business plans.

Absent a good business plan, a way to rescue a business, I agree with what you have all stated, essentially you can't go in and give money to a failing business if the business is already failing. However, there may be a way to get into those businesses prior to that. And I applaud the SBA for the outreach that they do and for SCORE, because in my area, SCORE is just the best resource for a lot of our small businesses involving veterans. It has been for some time.

Thank you.

Chairman AKIN. Thank you very much. You have a little more time if you have any follow-up.

Mrs. KELLY. I only have one comment.

I want to say that, Mr. Elmore, I think the questions that you have posed here again are really good questions for this committee and for the Small Business Committee in general to take a look at.

The small business—I am a small business woman. Small business is unique. We are such a—it is an interesting group of minds that drive the economy of the United States of America. We don't need one size fits all. And I think your questions are very well taken. Thank you for putting them there.

Mr. ELMORE. Thank you.

Chairman AKIN. That comes back to me; I get the next question here.

I am going to start with, I think, three questions for you, Bill, and then you choose which ones you want to answer. First of all, can you elaborate on the outreach SBA does to veteran business owners?

The second one, how much do you think that your office spends per vet in the outreach—per person, that is—and how many of these veteran businesses outreach centers are you able to fund?

Mr. ELMORE. Thank you, sir.

Outreach, well, my office has three primary responsibilities, and the first in that is outreach, comprehensive outreach, on behalf of the agency. So the approach that we have taken is to go out initially to what I call the veteran-serving community, which I believe is about 10,000 places where a veteran may walk in and go, ″I am a veteran.″ that includes SBDCs, it includes the VA Hospitals and everything in between.

So we focus on trying to reach out to them and provide them detailed information about the full range of programs. And we have done that specifically since September 2001 for Reserve and Guard, and we continue to do that. We do it, again, through SBDCs. We do it through the Department of Labor. We do it through the Department of Defense. We do it with State Department, Veterans Affairs, and anybody else in between we can find.

Second, the cost per vet—let me talk about, and I will start with your third question. Presently, we fund four veterans business outreach centers. They tend to be regional. One is in Florida, one is in Texas, one is in New York, one is in California. Those are four of the five largest States for veteran populations, as well as four of the five largest States for Reserve and Guard populations. So part of where we locate them strategically and part of the evaluation was that geographic location.

The resources that we have put into those over the last 5 years, it has been about $2.5 million. And over those 5 years, we have touched somewhere in the range of 144,000 veterans and Reserve and Guard. So if you do the math on that, that equates out to about $17.35 per veteran that we have been able to touch base with.

I am very proud of that. I don't know that you can find anyplace anywhere in government that works at that level of efficiency. But it is not just our efficiency. It is the efficiency of the veterans community itself and how they engage and how responsive they are to reach out and help each other. And that is an important part of what we do.

The other thing I will touch on is that we also—and I am proud of this—we started 4 years ago with what I called district office outreach. And I think we were the first office in SBA to do this. And we have funded now 56 district offices, the last 4 years, a total of about $130,000. So we are working very efficiently and very economically. We have brought an additional 11,264 veterans into the agency to ask and seek and receive our services based on that $130,000 outlay.

So I think in the economy of how we do things, we have really been very effective. And I have to thank my administrator, Hector Barreto, for allowing me the flexibility to take what were some relatively unusual sorts of outside-the-government approaches by stepping into a district office, but also saying, I am not going to give you the money unless you bring the State department of veterans affairs, unless you bring the small business development center, unless you bring the American Legion and the VFW, also unless you bring Reserve and Guard units into your outreach efforts.

And that is what we have done. Through our basic guidance and our funding, we have directed them to reach into this community and bring those communities together. And we think it works.

Now, obviously, I think, in deference to the ranking woman, it hasn't perhaps worked well enough. And we continue to strive to make it better. I can tell you, for example—

Chairman AKIN. It sounds like you are going down the track, though, of what was being suggested. You are pretty aggressive in trying to pursue any possible lead where you can get that information.

Mr. ELMORE. Exactly. What I know is—and this goes to my core philosophy, and this is not now SBA; this is Bill Elmore speaking—government is not always the answer to all of these things. The answer lies in the hearts and heads and hands of these men and women who are business owners themselves. They have to take steps. We have to take all the appropriate steps to make sure that our resources are available to them in a way that is accessible and understandable, and encourage them to use them.

But they have to take those steps, as well, so part of this is to engage with them and help them understand what is available; and if they don't get the assistance they need, to let me know. Because another responsibility I have is to act as an ombudsman.

So if I get an MREIDL loan applicant who thinks that they haven't been treated fairly, or there is a problem in the process, if they find me and we tell them about this in our fact sheet, I will

go to our disaster office and ask them to look at it; and if there is an issue that we can resolve favorably, we will.

And we have done that.

Chairman AKIN. Thank you. My time has expired and we will go into second round of questions.

Ms. BORDALLO. Thank you, Mr. Chairman.

My first question, I think Mr. Alford had his hand up, and if you would like to continue to answer that question, I think it is still on the table.

Mr. ALFORD. Yes, ma'am, and I think there is some substance in your concern that something is missing with the lack of loans out of this special program. And it is an education for me today.

I am the President/CEO of the National Black Chamber of Commerce. We have 130 chapters located in 40 States in this country. We have a written MOU with the SBA. We do a lot with the SBA district officers, and last week I was on the road with Administrator Hector Barreto.

But this veterans program is new to me, and I am a little embarrassed personally. I should be on top of this. So I think that me and Mr. Elmore need to talk more and get better engaged. Thirty percent of our membership are veterans. Fifty percent of my board of directors are veterans; some are very good business owners.

But there is something missing that needs to be in—and your concern, I think, is justified.

Ms. BORDALLO. Thank you. Thank you, Mr. Alford.

I am just curious, Mr. Elmore—you might check into it; I just checked with my staff, and he is not aware of it. I am just wondering, we have a lot of veterans returning in Guam, many professionals. I think you mentioned doctors that are going out there for 3-month stints.

Now, do you recall ever making a loan to Guam? I know that is kind of a loaded question, and you can check on it and let me know later.

Mr. ELMORE. We can simply follow up with you on that, ma'am.

Let me help you understand the disaster assistance program is not a program my office runs. So I am not involved specifically, day-to-day, in where those loans go and how they are approved and so on. That is the disaster office that does that. But I provide a lot of support and assistance to them.

So I will get that answer for you.

Ms. BORDALLO. Good.

Mr. ELMORE. And find out what loans, if any, have been made in Guam.

Ms. BORDALLO. I just want to point out, Mr. Chairman, per capita, Guam has lost more of its men and women in all the wars beginning with Vietnam than any other State in our Nation.

We are very, very loyal Americans way out there, but because we are so far away, sometimes we are forgotten. So it—to kind of round up my round of questioning right now, since you have posed a number of questions to us, and you are in a policy position—

Mr. ELMORE. Yes, ma'am.

Ms. BORDALLO. You are the Associate Administrator at the agency; you are an expert. So is there anything that—ideas that you

have that you would like to share with the committee that you are thinking about—

Mr. ELMORE. Well, I think—

Ms. BORDALLO. —to make this program more effective?

Mr. ELMORE. Obviously, we need to continue to do the outreach.

I think the missing element here—and again, it is not intended to say anything negative, because they have been very helpful—is DOD. At its core this is ultimately a DOD issue and a DOD responsibility.

This is at its core, as well, about the all-volunteer force and the whole recruitment and retention side of that. And I think—and I am not saying they should be more involved, but I think they have a primary responsibility here for their soldiers. And we have done, I think, a reasonably good job trying to offer and extend our services and resources through that system. But perhaps a stronger joint effort with us, with them, and with the ASBDC and others, and SCORE, would be in order.

Ms. BORDALLO. Mr. Chairman, I want to thank you for holding this public hearing here today. I am on the Armed Services Committee. And there is so many stories I hear about our veterans that are now returning from Iraq and Afghanistan and other places, that are falling through the cracks. So it is not just business people, but it is people with disabilities.

And I know the programs are there. Perhaps the information just isn't there to get to them.

Yes?

Ms. KERR. If I could address that and—address those, outreach is great, Bill. I see his folks at our supermarket of veterans benefits, which we have in our state, but honestly, please don't have anyone send any more paper—paper to our veterans. They have piles of stuff to read. They can't read any more.

I think the best way to reach them is through your television media, through your radios, through your billboards. They are all driving down the road; they are all catching the radio at some point. But to sit down and try to read another piece of paper, they are so strapped for time. If they saw a clip on TV that said, Have you checked out the SBA? It is a new way. It is a new SBA today. You know, wow, they are going to stop and look if they are a veteran businessman.

Not any more paper.

Ms. BORDALLO. That is a good point.

Thank you, Mr. Chairman.

Chairman AKIN. Thank you. I think that we should do a couple of rounds of questions, but we don't have too many Congressmen here. And so with that, the meeting is adjourned. But I will be sticking around for just a moment afterwards if there are questions or answers.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned.]

OPENING STATEMENT
21 JUNE 2005

SUBCOMMITTEE CHAIRMAN W. TODD AKIN
SUBCOMMITTEE ON REGULATORY REFORM & OVERSIGHT

"Veterans Access to Capital"

Good Afternoon. I would like to extend a warm welcome to those of you who have taken time out of your busy schedules to testify before this committee today. We are here to discuss the current obstacles that prevent veterans' access to capital and more specifically, the barriers that self-employed reservists and guardsmen face in maintaining financially solvent businesses during deployment.

As we all know, small businesses play a crucial role in our economy. Small Businesses pay a majority of our nation's taxes and employ the majority of our workforce. In fact, small businesses employ approximately 18 percent of all reservists who hold civilian jobs. Moreover, the Congressional Budget Office estimates that out of the 860,000 reservists in the Selected Reserves, approximately nine percent are self-employed.

Many self-employed reservists experience economic hardship both during deployment and after their tour of duty. According to one Department of Defense survey, 22 percent of reservists who had recently been activated said that the damage done to their business was a "serious" or "very serious" problem.

To date, there are several federal programs that have been set up to assist these small businesses. Bill Elmore, from the Small Business Administration's Office of Veterans Business Development, is here to discuss some of the programs and how our soldiers may take advantage of them.

Don Wilson, President of the Association of Small Business Development Centers (SBDCs) will provide us some insight into the role SBDCs play in providing assistance to self-employed reservists and veteran small business owners.

Ms. Patricia Kerr, Veterans Ombudsman for the State of Missouri, is here to explain to us the challenges faced by the soldiers, their families left behind, and the states' responsibilities during their deployment.

Lastly, we will hear from Mr. Harry Alford. Mr. Alford is here in his role as the president and CEO of The National Black Chamber of Commerce. He will explain to us the impact on his members' businesses while many of the owners and proprietors have been sent overseas in our recent conflicts.

Witnesses, I thank you for coming, and before we get started, I would like to greet my distinguished colleague from Guam, Ranking Member Congresswoman Bordallo and invite her to say a few words.

William D. Elmore
Associate Administrator
Office of Veterans Business Development
U.S. Small Business Administration
409 3rd. Street SW, Washington, DC 20416

Phone: (202) 205-6773
Fax: (202) 205-7292
Email: William.Elmore@sba.gov
Web: WWW.SBA.GOV/VETERANS

Mr. Elmore is responsible for the formulation, execution, and promotion of policies and programs of the Administration that provide assistance to small business concerns owned and controlled by veterans, by service-disabled veterans and by members of Reserve components of the U.S. military.

He manages the SBA Office of Veterans Business Development (OVBD), conducting comprehensive outreach and acts as an ombudsman for full consideration of veterans in programs of the Administration:

- Serves as liaison between SBA and the veterans' serving community.
- Formulates and executes programs and policies benefiting veterans.
- Develops and promotes SBA programs, services, research and initiatives to other federal agencies, organizations and to the public.
- Represents the Administrator on the Board of Directors of the National Veterans Business Development Corporation, the Presidents National Hire Veterans Committee and other Committees and organizations.
- Develops, manages and coordinates SBA Reserve and Guard initiatives with the Department of Defense, other agencies and organizations.
- Works with and encourages all federal agencies to meet procurement goals for veteran and service-disabled veteran owned small businesses.
- Implements and funds special outreach through SBA District Offices, and;
- Manages and funds Veterans Business Outreach Centers in Florida, New York, Texas & California, who provide special outreach, service delivery and coordination to Service-Disabled veterans, veterans' and Reserve Component members of the US Military.

Prior to being competitively chosen as the first Associate Administrator for Veterans Business Development, Mr. Elmore was a small business owner, and principal in the creation and management of the "One Stop St. Louis Area Veterans Service Center" in St. Louis Missouri.

Statement of William Elmore
Associate Administrator for
Veterans Business Development
U.S. Small Business Administration
June 21, 2005

Chairman Akin, Members of the Committee, thank you for your invitation to testify today. I understand that the Committee is interested in determining the barriers that confront our Nation's self-employed Reserve and National Guard members who while activated and deployed, must maintain a financially solvent business back home. As the U.S. Small Business Administration's (SBA) Associate Administrator for Veterans Business Development, I would like to convey this Administration's ongoing commitment to ensuring that our service men and women, and veterans, are supported in their efforts to maintain or establish successful small businesses in their home community. SBA believes it is vitally important that we offer all of our available assistance to small businesses owned by Reserve Component members so that any damage that may occur when the owner is called to active duty can be minimized. We also believe that it is important to ensure that members of Reserve Components know of SBA and our services should they aspire to become small business owners.

Reserve Component members play a vital role in defending America in the War on Terrorism. While their skills are vital to the success of their small business, they are equally vital to the success of their military mission. To accomplish this dual mission is a serious and significant challenge for any Reserve Component member. There are no simple solutions, nor are there easily proposed or implemented

initiatives that will mitigate all the potentially damaging circumstances that can occur when an owner is called to duty. We cannot afford to lose the knowledge, the skills, or the abilities that our Reserve Component men and women bring to our Nation's defense, nor can we allow their commitment to our defense lead to the failure of their businesses. This would erode our national defense and damage our economy.

I begin with an overview of the steps SBA has taken to reach out and assist, Reserve Component members who are small business owners.

Since 2001, SBA, under the proactive leadership of Administrator Hector Barreto, has led the Federal government into this arena.

By August 2001, SBA had fully implemented our Military Reservists Economic Injury Disaster Loan (MREIDL) program, including a vigorous marketing campaign directed to small business and to DOD. From August 24, 2001 to May 31, 2005, we have approved 60% of all MREIDL loan applications (228 total) with each loan averaging of $88,863. The average interest rate has been approximately 3%.

On September 26, 2001, our Office of Veterans Business Development (OVBD) began to coordinate SBA agency-wide activities to reach out to, inform and assist Reserve Component members who were being, or were at risk of being called to active duty by the President for the War on Terrorism. Initially, OVBD

incorporated special outreach initiatives for Reserve Component members into SBA's District Office Outreach programs. My office provides direction, tools and competitive funding opportunities to SBA District Directors for implementation of outreach plans developed by their Veterans Business Development Officers in cooperation with OVBD. As plans are approved, funds are provided by OVBD. Since 2001, this initiative has led to OVBD providing special funding to 56 SBA District Offices.

OVBD developed and provided SBA District Offices with outreach materials targeted to the veteran, Reserve and Guard population, and we continue to do so to this day. We also directed our 4 existing Veterans Business Outreach Centers to enhance their outreach and e-counseling to Reserve Component members, and we created a special SBA Headquarters Self Employed Reserve and Guard (SERG) working group to review and to initiate Agency-wide efforts. In addition to developing outreach materials and program tools, OVBD began to highlight assistance for Reserve Component members in our Vet Gazette electronic newsletter that goes quarterly to thousands of veteran business owners, SBA and other government employees, SBA resource partners, and members of organizations serving veterans.

After our SERG working group identified specific areas for coordination within SBA, we created the SBA Reserve and Guard Fact Sheet, and in December 2002, we established a special website specifically for Reserve Component members at

www.sba.gov/reservists. **This special Reservist's page received more than 150,000 visits in its first year, and now averages more than 3,500 visits each week.**

We then approached the Assistant Secretary for Reserve Affairs at the Pentagon to discuss a collaborative outreach effort with DOD. Through his office, we established a working relationship with the DOD-funded National Committee for Employer Support of the Guard and Reserve (ESGR) and began to provide SBA outreach and program materials to their almost 5,000 employees and volunteers nationwide. We also began providing briefings and training to their employees and volunteers from SBA Headquarters and through SBA District and Regional Offices

Through ESGR and DOD, we provided SBA Fact Sheets, Outreach Posters and comprehensive SBA program guides to reserve and Guard mobilization sites, and through ESGR, we printed and inserted 225,000 SBA Reserve and Guard Fact Sheets into Demobilization Kits distributed to returning Reserve and Guard members at DOD demobilization sites.

With the active support of ESGR and the Reserve Officers Association, we developed, peer reviewed, printed and distributed thousands of our Post Mobilization Business Planning (Resource) Guides and, are nearing final production of a Pre-Mobilization Business Planning Guide, designed to assist small business owners who are Reserve Component members planning for the likelihood of activation or re-activation. When completed, it will be added to our other tools

for ongoing distribution. SBA has also produced a special Reserve and Guard interactive CD that contains comprehensive information from a wide variety of organizations, agencies and programs that we believe will be of interest to Reserve Component small business owners and their families. Downloadable and printable materials on this CD include The post-Mobilization Business Planning Guide, SBA Program Guides, MREIDL applications, SBA resource partner program information, DOL, IRS, DOD and DVA contact and program information, National Governors Association State Programs for reserve and guard members, the Service Members Civil Relief Act and numerous web sites of interest or assistance from our many federal, state, not-for-profit & legal partners. Our intention is to continue to update this CD, and to continue to distribute this CD to 17,000 Reserve and National Guard unit locations.

SBA has posted these materials on our web sites, and we have developed links and postings on many of our partnering organization web sites, including DOD, Family Support Centers, ESGR and others. We continue to distribute thousands of the Fact Sheets, CDs, Reserve and Guard Kits, and Program Guides to all of the Agency's resource partners. All these materials remain available upon request to anyone.

Additionally, I have made presentations at more than 100 events before organizations such as the Department of the Army, the National Guard Bureau, the ESGR, the Army Corp of Engineers, the Department of the Air Force, the

President's National Hire Veterans Committee, the National Veterans Business Development Corporation, the Alabama Small Business Development Consortium, the American Legion, the Veterans of Foreign Wars, the Disabled American Veterans, the Paralyzed Veterans of America, the Vietnam Veterans of America, and I have testified and briefed Congress on a number of occasions. Since 2001, I have made it a point that regardless of the purpose of my presentation, I always conclude with information specifically relating to our services and tools for Reserve Component small business owners, including an appeal to the audience to help us identify and inform any Reserve or Guard small business owner of the availability of our assistance.

These efforts have led to numerous media stories highlighting our assistance for Reserve Component members, including the Washington Post, the Washington Times, USA Today, the Wall Street Journal, The New York Times, the San Francisco Chronicle, US News and World Report, USChamber.com, the National Federation of Independent Businesses and numerous other media outlets.

As an agency we have provided written guidance to our thousands of SBA participating lenders and certified development companies regarding their responsibilities and options for Reserve Component loan holders, and our Disaster Assistance program provides priority loan processing to MREIDL loan applications and loan recipients.

SBA has also provided reserve and guard tools, along with specific instructions in our program announcement documents to all 1,100 of our Small Business Development Centers directing them to work with and report activities with their State ESGR, with their State National Guard Adjutants and with individual Reserve Component members and units located in their communities. Additionally, SCORE has created a special on-line counseling initiative specifically targeted to small business owners who are Reserve Component members. SBA is promoting this on-line programs' availability, and helping recruit additional volunteer counselors to become part of SCORE's face-to-face and e-counseling efforts. At SBA's suggestion, and with our support, The National Veterans Business Development Corporation created a special marketing web page that allows Reserve Component members to promote their small business to the American public at no cost.

Today's hearing seeks to determine the leading barriers preventing veterans from maintaining financially solvent businesses back home during their deployment, and to discuss what further changes may be made to legislation to better prepare veterans to successfully reenter the business community.

Two recently published government reports addresses these questions, and both provide a basis for deliberations in helping to answer these questions. The first paper was prepared for the Office of the Assistant Secretary of Defense for Reserve Affairs, and is "Analysis of Employer Costs from Reserve Component

Mobilization". This paper was released in December 2004 by the Institute for Defense Analysis. (IDA Paper P-3872).

The 2nd Paper was published by the Congressional Budget Office (CBO) in May 2005, and is titled "The Effects of Reserve Call-Ups on Civilian Employers". I believe these two papers provide a formative basis for these important deliberations, not only for Congress, but also for SBA, DOD and others.

Both Reports suggest that cost consequences are different and greater for small businesses than for larger businesses and that the most significant costs for small employers are related to lost productivity and sales, especially for those small businesses that are owned by activated Reserve Component members. These papers examine approaches that could help mitigate problems faced by affected small businesses, but make no definitive recommendations. Our discussions with the principals involved in researching and writing these papers presented no simple solutions.

Unfortunately, a lack of specific data relating to this arena complicates policy deliberations and hampers development of pointed or specific solutions. For Reserve and Guard members, this is changing. DOD is in the process of conducting surveys of reserve and guard employers. These survey results should provide a clearer picture of these fundamental questions in the near future.

In your deliberations, I ask that you consider the following as some of the complicating factors in the questions you pose:

A) Some Reserve Component members experience multiple activations and some have yet to be called to active duty. What is the comparable effect on a reservist small business owner who is experiencing multiple activations versus a reservist owner who has not been activated?

B) The specific expertise that a successful self-employed small business owner possesses varies from owner to owner and may be irreplaceable in the short or long term.

C) The types of businesses Reserve and Guard members own are not uniform in size nor are markets in which they operate the same.

D) Some owners receive significant lead time from DOD regarding notices of pending activations and some do not. Some activated owners have their tours extended, and some do not.

E) Some activated owners will become ill or inured during their activations, some will be disabled and some will give the ultimate sacrifice for America.

F) Some activated owners will deploy for training and then to war zones overseas, and some will remain stateside where perhaps they can maintain some involvement in their business's operations.

G) Some activated owners will return to an economically damaged business, and some will not.

H) In some instances a partner or spouse or other family member may be able to successfully maintain business operations during the owner's absence, and sometimes this will not be the case.

I) In most instances, a business that has been significantly damaged while the owner was away may not be able to demonstrate loan repayment ability and therefore they may not be approved for a loan.

J) Some owners simply cannot afford to incur the additional debt of a loan, whether an SBA loan or another loan.

Clearly, these and the full range of issues that some businesses face do not make for a simple "one size fits all" program answer.

Thank you, I welcome any questions you may have.

Statement of

Donald Wilson, President

Association of Small Business Development Centers

June 21, 2005

Before the

Subcommittee on Regulatory Reform and Oversight

Committee on Small Business

U.S. House of Representatives

Regarding Veterans Access To Capital

Donald T. Wilson
President and CEO
Association of Small Business Development Centers
8990 Burke Lake Road, 2nd Floor, Burke, VA 22015
Phone: 703-764-9850; Fax: 703-764-1234

CURRICULUM VITAE

Don Wilson
President and CEO
Association of Small Business Development Centers

Donald Wilson is the President/CEO for the Association of Small Business Development Centers (ASBDC). He assumed his current position with ASBDC in May of 2001, after having served as the association's Director of Government Affairs for two years.

Prior to coming to ASBDC, Don was for fifteen years Director of Government Relations for the National Tire Dealers and Retreaders Association (NTDRA). NTDRA, with over 5,500 members, was a well-respected small business retail association. During his last few years with the NTDRA, Don also served as the association's General Manager in addition to his responsibilities as Director of Government Relations.

Mr. Wilson joined the Tire Dealers Association after serving ten years as Chief of Staff to three different Members of the U.S. House of Representatives. Prior to going to work on Capitol Hill, Don taught United States History and Public Speaking for a number of years at the secondary school level.

Mr. Wilson is a graduate of the University of North Carolina at Chapel Hill with a major in United States History and a Minor in Political Science. He also studied law for two years at the University of North Carolina School of Law and attended the University of Miami's Institute for the Study of Law and Economics.

Mr. Wilson and his wife, Ann, have two children and reside in Falls Church, Virginia.

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Regarding Veterans Access To Capital

Chairman Aikin, Ranking Member Bordallo and members of the subcommittee; I am Donald Wilson, President and CEO of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the sixty-three State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC programs are located in all fifty states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The SBDC network is the Federal government's largest small business management and technical assistance program with approximately 1,000 service centers nationwide serving more clients than all other federal management and technical assistance programs combined.

Mr. Chairman, I would like to thank you, on behalf of ASBDC and the nearly 6,000 dedicated men and women who work in the Small Business Development Center national network, for inviting the Association to testify at this important hearing on barriers to veteran's maintaining financially solvent businesses back home during military deployments abroad.

America's small business development center network is extremely proud of its quarter century record of service to America's veterans. Annually, between eight and nine percent of our counseling clients are veterans, and this only counts the self-declared veteran. We normally serve between 50,000 and 60,000 self-declared veterans annually. And we know the numbers are larger than that because many of our clients who are veterans choose not to self-identify their veteran status. During the first two quarters of FY 2005 the SBDC national network has counseled or trained over 25,000 veterans.

ASBDC is very proud of the work done by SBDC counselors with clients who are veterans. And ASBDC is extremely proud when SBDC counselors are recognized for their work. Only last week, Sue Floyd of the Tahlequah, Oklahoma SBDC was honored by Deputy Secretary of the Department of Veterans Affairs Gordon H. Mansfield at a Veterans Administration awards program here in Washington for her work with disabled veteran Jerry Ezell, President of SFS Fabricating. Mr. Ezell is a disabled veteran of the war in Iraq who opened his new business in May of this year. ASBDC is also extremely proud of the fact that SBDCs operate three of SBA's four Veteran Business Outreach Centers. Those three centers are located in New York, Florida and Texas.

The reality of the problems facing small business owners, who are members of the National Guard or Reserve, was recently highlighted in a sobering story in the June 5, 2005 edition of The ***Washington Post***. The article, written by Amy Joyce was entitled "Baghdad and Bust, Small-Business Owners Defending America Are Losing Their Shirts." The article focused on the experiences of three members of the Guard or Reserves who are small business owners. Their stories are not atypical. I have attached Ms. Joyce's ***Washington Post*** article to the end of my testimony.

Major Robert Palmer, Air Force Reservist and public affairs officer for Employer Support of the Guard and Reserve, a Department of Defense agency, recently articulated very well the problems faced by small business owners in the Guard or Reserves when he said, "Obviously, mobilization can be catastrophic to someone who is self-employed or a small-business owner. There's no question that it's a huge challenge. A reservist who is self-employed or owns his or her own small business has to calculate the risk."

The Congressional Budget Office study, "***The Effects of Reserve Call-Ups on Civilian Employers***" that was released last month, found that small businesses employ about 18% of all reservists who hold civilian jobs. That figure seems quite low in light of the fact that small businesses employ an estimated 51% of the civilian work force. Indeed, in 1997 the Census Bureau said that 56 percent of employees in the private sector were employed in small businesses with fewer than 100 employees. Why would a segment of employees, i.e. reservists, be so drastically different in their employment patterns than the rest of civilian employees in our society? Similarly, the CBO reports that of 860,000 reservists in the Selected Reserves, between 8,000 and 30,000 hold key positions in small businesses. Once again, we believe that number may be low. I say that because 52 percent of the civilian workforce is employed by small businesses and 15 percent of wage earners in the civilian work force are employed in small businesses with fewer than 10 employees. Eight-seven percent of private businesses employ fewer than 20 employees. Considering those statistics we believe it could well be that the number of reservists holding key positions in small business may be much higher than CBO estimates. I say that because in many small businesses employing fewer than twenty employees, several employees per firm could realistically be viewed as key employees. Please note that federal law defines an `essential employee' as "an individual who is employed by a small business concern and whose managerial or technical expertise is critical to the successful day-to-day operations of that small business

concern." Let me also point out that losing 2 employees from a 10 person firm is equivalent to losing 100 employees at a 500 person firm or worse.

Please understand that my purpose here today is not to take issue with this important study conducted by CBO at the request of Senator Snowe. The point I seek to make, is that the scope of the problem the CBO study identifies may be greater than the study recognizes. Small Business Development Center counselors advise me that the unexpected loss of any employee in most small businesses can be both disruptive and costly, whether the employee is viewed as an essential employee or not.

The Department of Defense is clearly relying more and more on reserve components. Reserve call-ups have increased sharply since the terrorist attacks of September 11, 2001. The Pentagon called up 410,000 reservists between September, 2001 and November, 2004. One-third of the troops deployed in Iraq and Afghanistan in November, 2004 were reservists.

The call up over the last four years of Guard and Reserve units clearly is impacting tens of thousands of small businesses, if not more. The impact becomes much broader when you realize that 55,000 reservists in the Selected Reserve are self-employed.

It is critical to understand that reservists in the Selected Reserve can be activated on 24 hours notice. After being called to active duty, a self-employed reservist has very limited opportunity, if any, to take meaningful steps to try and protect his or her business. And small business owners whose employees are called up on 24 hours notice face major adverse impact.

The seriousness of this overall issue can be summed up by the following, "**The current trend toward longer and more frequent reserve deployments ... raises questions about the ability of civilian employers, particularly small businesses, to absorb the costs they experience when their reservist**

employees are called up." So wrote Douglas Holtz-Eakin, the CBO director, in the report I referenced earlier.

For employees who are called up, the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) the primary statute governing service members employment rights, assures most reservists on active duty that they will be re-employed by their civilian employer after serving on active duty. It also seeks to prohibit employers from discriminating against individuals because of their service in the reserves. It also mandates some continuation of benefits to reservists who have been called to active duty.

It should be recognized that these important protections for employees may well pose burdens to small business employers. For example, it may be difficult for an employer to find an employee who will take a vacant job knowing full well the job will only last until the called up reservist returns. And more importantly USERRA provides no protections to a self employed person who finds his business has gone out of business during his active duty deployment.

The adverse impact of reserve activations is very real. Not only does it have an adverse impact on families and the economy, but it must surely be having impact on reserve recruitment. If you are self-employed, and you see a self-employed friend or neighbor called to active duty with dire consequences for his or her business, you may think twice before joining the Guard or Reserves.

The impact of activation on self-employed individuals and their employees can be dramatic. Imagine that you, your wife and your twenty year old son are all involved in a family business. As the owner, you are called to active duty. Without your leadership and expertise, the business begins to lose customers and sales. Your wife and son are now faced with leaving the business in search of other employment with a more assured pay check and closing the business down or trying to hold things together until you return.

Or imagine you are the owner of a firm employing ten or twenty employees and you are called up along with another of your employees. That business could well have a difficult time staying profitable. Sales are likely to decline, other employees seeing the firm struggling are likely to seek other more secure employment, further hastening the firm's downward spiral. You return, as in the first scenario, to either a firm that is in extremis or a firm that has collapsed. The economic impact of these examples are staggering for the individuals involved.

The government has taken meaningful steps such as USERRA and the creation of Military Reservist Economic Injury Disaster Loans to help address some of the problems created by activation of reservists, both self-employed and otherwise. The Service Members Civil Relief Act provides important benefits such as reduced interest rates on mortgage payments, reduced interest rates on credit card debt, protection from eviction if rent is $1200 or less. These are personal protections as I understand it. Perhaps there should be a review as to whether these protections should be extended to mortgages on business property and business credit cards.

SBA and VA have undertaken other actions as well to help address some of the issues of veterans who are small business owners. SBA Associate Administrator William D. Elmore and his staff have produced a publication entitled, ***Getting Veterans Back To Business.*** This is an excellent and useful publication. The Department of Veterans Affairs operates the Center for Veterans Enterprise ably headed by Scott Denniston. The CVE collaborates closely with ASBDC and our service centers nationwide and does an outstanding job for veterans.

There are numerous efforts being made to help address the very real economic dislocations created by the activation of reserve units. The question is, are they enough? And, if not, what are the most cost effective actions that could be taken

to further assist small businesses and small business owners impacted by active duty deployment of the business owner or essential employees of the firm? Many of the proposals being discussed involve direct financial assistance or tax credits. These have the potential to be beneficial.

However, one of the most cost effective steps that self-employed reservists can take, to ease economic dislocations resulting from being activated, is contingency planning. Chairman Aiken. your colleague from Missouri, Congressman Ike Skelton, states the issue very well on his website, and I quote, **"I encourage all small business owners and small businesses with essential employees who are members of the National Guard or Reserve to become familiar with SBA programs <u>and have a plan in place to work through any potential disruption that may result from military call-ups</u>."** SBA's publication, "Getting Veterans Back to Business" puts it well also, when it states, "Plan ahead to ensure that your business affairs are in order before an actual alert and mobilization. The time you devote developing an effective plan will provide the foundation, organization and security you'll need to fulfill your military Reserve duties and responsibilities with the least disruption-to you, your employees, and your customers and creditors. Every reservist who owns a small business should prepare a Small Business Mobilization Plan, keep it on file and update it annually." This is very good advice.

America's Small Business Development Center Network, with approximately 1,000 service centers nationwide, has highly capable counselors who are available to assist reservists who are self-employed to develop plans to deal with the contingency of mobilization. They are also available to help small business owners prepare loan applications for Military Reservist Economic Injury Disaster Loans. They can assist with strategic planning, human resource issues, procurement, marketing, etc. etc. SBDC consulting services are available at no charge.

When the business owner or essential employees are activated, one of the things those left behind need most is training. SBDCs can provide a wide array of management, financial and marketing training to those in the firm who must shoulder the responsibility of keeping the firm going in the absence of the owner and other employees.

Mr. Chairman, only yesterday, at a formal meeting of the ASBDC Board of Directors, I recommended that consideration be given to recommending to ASBDC members that all training fees be waived or reduced for families and employees of small businesses whose owners or essential employees have been called to active duty. I also proposed that ASBDC recommend to its members that they waive or reduce training fees for returning veterans. This could pose financial challenges for many SBDC service centers, many of whom have seen no increase in federal funding since 1997, while others have experienced significant reductions in federal funding. Nonetheless, I believe in light of the magnitude and immediacy of the problem that many small businesses are experiencing due to call up of business owners or key employees, unusual actions may be required.

As members of the subcommittee probably are aware, federal law currently allows veterans to use their Montgomery GI bill benefits to take non-credit entrepreneurial courses at SBDCs. This is an important benefit to our nation's veterans.

In an effort to try and prevent problems from becoming even more wide spread, we would recommend that the leadership of Reserve Units that have not been activated undertake a concerted effort to identify those in their units who are self-employed. Reserve leaders should then make a determined effort to ensure that small business owners in their units are aware of the services of Small Business Development Centers and other SBA management and technical assistance programs. Every effort should be made to encourage small business owners

who have not been activated to develop contingency business plans in the event of mobilization.

It has been brought to my attention that some reservists and National Guard members have experienced pay problems when they are mobilized. I know that my representative, Congressman Tom Davis, chair of the Government Reform Committee has held hearings on this issue. Studies conducted at the request of that committee have confirmed that these problems exist. It is important for any reservist and his/her family to be certain that the activated reservist receives the compensation due him or her in a timely fashion. Prompt access to capital in terms of earned pay and benefits should never be in question.

I understand, Mr. Chairman that your House colleagues, Congressman Beauprez and Congressman Barrett of South Carolina, have introduced legislation, H.R. 621 that would allow penalty free withdrawals from retirement accounts for reservists who are called to active duty for more than 179 days. Withdrawals could occur during the period of their call up. While premature withdrawals from retirement accounts should be very carefully considered by any one who has a retirement account, such a proposal might assist in dealing with the economic dislocations that frequently occur when a self-employed reservist, and indeed any reservist, is called to active duty. This would be one way to increase access to capital.

ASBDC is aware that Senators Dorgan and Senator Shelby have introduced S. 417 to provide for a refundable wage differential credit for activated military reservists. Certainly, many reservists including small business owners and employees of small businesses experience significant drops in income when they are called to active duty ASBDC does not have a position on tax credits of this nature, but the drop in income is real for many reservists. According to the General Accounting Office (GAO) more than 40% of the Guard and Reserves suffer from a loss in income as a result of their activation. Such a tax credit

would be one way of seeking to address the income loss that a small business owner's family might suffer as a result of activation.

Mr. Chairman, Congressman Lantos and your Small Business Committee colleagues, Representative Graves, Udall and Faleomavaega among others, have introduced HR 838. Among its several provisions, HR 838 provides a tax credit of $12,000 for the costs associated with hiring and training the temporary replacement worker. This credit would be contingent on the small business employer making pay differential payments to their activated employee. The bill also creates an important tax incentive designed to assist the self-employed citizen soldier in defraying the costs of hiring someone to keep the business running in his or her absence.

I do not pretend to be an expert on any of these bills. However, they are all approaches well worth exploring as Congress hopefully undertakes to address the problems outlined today that face small business owners in the Guard and Reserve and businesses who have employees called to active service.

ASBDC has noted with interest the introduction of S. 460 by Senator Kerry. A section of that comprehensive legislation is the National Reservist Enterprise Transition and Sustainability Act of 2005. The stated purposes of this section of S. 460 are to "(1) provide managerial, financial, planning, development, technical, and regulatory assistance to small business concerns owned and operated by members of the National Guard and Reserve; (2) provide managerial, financial, planning, development, technical, and regulatory assistance to the temporary heads of small business concerns owned and operated by members of the National Guard and Reserve; (3) create a partnership between the Small Business Administration, the Department of Defense, and the Department of Veterans Affairs to assist small business concerns owned and operated by members of the National Guard and Reserve; (4) utilize the service delivery network of Small Business Development Centers

to expand the access of small business concerns owned and operated by members of the National Guard and Reserve to programs providing business management, development, financial, procurement, technical, regulatory, and marketing assistance; (5) utilize the service delivery network of Small Business Development Centers to quickly respond to an activation of members of the National Guard and Reserve that own and operate small business concerns; and (6) utilize the service delivery network of Small Business Development Centers to assist members of the National Guard and Reserve that own and operate small business concerns in preparing for future military activations."

That section of S. 460 amends the Small Business Act to direct the Administrator of the Small Business Administration (SBA) to establish a program to provide business planning assistance to small businesses owned and operated by members of the National Guard and Reserve. It also authorizes loans to new veteran entrepreneurs; and grant assistance for military reservists' small businesses.

ASBDC has no formal position on the loans or grants to small businesses proposed by S. 460. However, we commend to you the section of the bill that provides additional funding to SBDCs to provide expanded management and training assistance to veterans. If that provision were enacted, SBDCs could expand in a meaningful way the scope of their services to small businesses whose owners or key employees are reservists. And it only makes sense for the Department of Defense to increase its interaction and initiate support for the SBDC program as it tries to assist members of the Guard and Reserve who are small business owners. DOD should also look to assist the SBDC program in its efforts to assist members of the regular armed forces when they leave the military and seek to start a small business. ASBDC is confident that a greater involvement by DOD with the SBDC program's assistance to veterans could enhance DOD's recruiting efforts.

Mr. Chairman, when a small business appears to be having problems, the all too frequent reaction is that increased access to capital will solve the problem. That is not necessarily the case. Dun and Bradstreet has repeatedly stated that management decisions are the major reasons small businesses fail. Small businesses, when they are confronted by the loss of a key employee or owner, may well need capital. And with a key employee or owner on active duty, a lender may be extremely reluctant to make a loan regardless of the past financial history of the business. SBDCs have a long and successful history in helping small businesses to gain access to capital.

When a small business is faced with the loss of a key employee or owner, hopefully it has in place a plan for that contingency. That unfortunately is rarely the case. In that event, a serious analysis of the condition of the business needs to be undertaken and a strategic plan formulated for the situation as it exists. Securing increased capital may be just one of several strategic actions that need to be taken

After a quarter of a century serving over 11 million small business owners, ASBDC's members are well qualified to assist a small business that has lost its owner or essential employee(s.) SBDCs are willing and able to help address the serious business owner issues addressed in the CBO's report. We pledge to this committee, to DOD, to our men and women on active duty who are small business owners and to small business owners in the Guard and Reserve that America's Small Business Development Center Network will do its very best, within the constraints of the resources we have, to continue to provide quality business management assistance when and where it is needed.

Thank you again Mr. Chairman for allowing me to testify today. At this time I will be pleased to respond to any questions you or other members of the subcommittee may have.

Baghdad And Bust

Amy Joyce, The Washington Post

Stanley Adams spent more than 30 years building up his business. But he had just days to decide what to do with his thriving livestock trailer companies when he was activated for duty in Iraq in April 2003.

"My wife didn't have a clue. I had to cram-course her and my daughter in a day and a half," said Adams, 52, who had applied to retire from the National Guard six months before he was called up.

While he was in Iraq, his wife had to shut down one of the Montgomery, Ala., companies, and the other one barely made it. Adams's revenue dwindled from $1.5 million in 2002 to just $250,000 in 2003.

"I had over a million dollars' worth of trailers here. Everything came to a halt, and all this money still had to be paid," he said.

Self-employed reservists and small-business owners who are called to duty run into problems other reservists don't. Most employees' jobs are protected by the Uniformed Services Employment and Reemployment Rights Act (USERRA) when they are called to duty. But small-business owners like Adams have little support to help them save companies they have labored to build.

"When you get mobilized in the National Guard, they go through to make sure you have power of attorneys, all your affairs are in order, you have insurance, make sure your wife knows what to do. They tell you about the Soldiers' and Sailors' act [which protects reservists called up from eviction and provides some debt relief]. That's all real good if you're not an owner of a business," Adams said. "But it doesn't affect business credit cards or business loans or business notes."

Many small-business owners, who must leave their companies behind, often at a moment's notice, have no plan for managing the business, or for a partner to take over. As a result, they find themselves deeply in debt or forced to shut down while they serve their country. Some businesses never recover.

"USERRA doesn't really cover self-employment, and so there is no protection per se," said Maj. Robert Palmer, Air Force Reservist and public affairs officer for Employer Support of the Guard and Reserve, a Department of Defense agency. "Obviously, mobilization can be catastrophic to someone who is self-employed or a small-business owner. There's no question that it's a huge

challenge. A reservist who is self-employed or owns his or her own small business has to calculate the risk."

Some lawmakers have attempted to bring attention to the situation.

Rep. Tom Lantos (D-Calif.) introduced a bill in the House in February -- a Senate version was introduced last month -- that would provide for tax credits for employers who lose key employees to active duty, including themselves.

A small-business owner could be eligible for up to $42,000 in tax credits under the Lantos bill.

But that's no help to those who have been called up during recent conflicts.

Robert Kalb, an orthopedic surgeon in Toledo, has been a Navy reservist since 1999 and was called to duty about nine months ago. "I had a lot of friends injured and killed in Vietnam, and I thought, it's a huge sacrifice people make and you have to do your part," he said. However, he didn't expect his sacrifice to include the possibility of losing his medical practice.

Kalb, deployed to Camp Lejeune in North Carolina, was told he would be gone "for a year or two."

"The experience has been extremely difficult," Kalb, 53, said. First he had to inform patients who had been waiting for surgery that he couldn't operate. Then he tried to find other surgeons to take over his patients' care. Kalb had 10 days to get everything in order.

"When you are in the military, you have no relief from your obligations to continue to pay your lease for your office, your equipment, and you have to continue to maintain staff to complete the transfer of care, provide medical records and take care of the patients' business," he said.

So far, Kalb estimates, he has lost more than $500,000 and is digging himself deeper into debt every day.

Because he will be gone for longer than three months, he will have to reapply for reinstatement to the hospitals where he performed surgeries. It will take two to four months before he can receive credentials to practice again, while he continues to pay $70,000 a year for malpractice insurance.

The experience has forced him to make a major decision about his future -- and it doesn't include the military. "When I get relieved of my activation status, I'm going to return to private practice and pick up and rebuild, because I have the loans to pay back and can't afford to pay those back if I stay in the military," he said. Deployments in the past few years have been

longer than in previous eras because of the war on terrorism and the Iraq war. Troops are stretched thin, and reservists have been asked to stay on duty for longer periods of time. Others have been called out of retirement.

"There is a lack of predictability. You get mobilized, but how long are you going for? [It affects] more than just reservists. It's the family, spouse and employer," said Lt. Col. Louis Leto, director of public affairs at the Reserve Officers Association. "The Guard and reserve are used much differently now. They are really part of the total force now."

Many small-business owners who are also reservists have not thought to put plans in place in case they are called to duty. Although there is scant support for business owners planning to keep their businesses going when they are deployed, there is a loan program designed to help them recover from costs incurred. Run through the Small Business Administration, the loan program was launched during the Kosovo conflict. It provides loans with a fixed interest rate of 4 percent and allows borrowing up to $1.5 million.

Adams credits the loan with saving his business when it seemed that everything was falling apart. While in Iraq, Adams received an emergency call from home: He was told his wife, Becky, had suffered a mild heart attack. It turned out to be "nothing but stress," Adams said, from trying to keep the businesses running while working her own full-time job as a secretary.

"It just kind of fell in my lap," Becky Adams said of her new role running the businesses. "He always handled the money. I didn't know how he did all that."

Then in October 2003, while he was in Iraq, Adams was found to have cancer. He was sent home for treatment and called the Small Business Administration for help. He received a loan for $350,000 that he said saved his second business.

"We ain't on our feet 100 percent, but we can make all our bills," he said. His revenue for 2004 was a little over $1 million again.

Although there are no specific numbers available, the SBA estimates about 6 or 7 percent of National Guard members are self-employed or are small-business owners.

But the loan program is not enough, the SBA acknowledges. "While it's a wonderful tool, it's not going to fit all the circumstances these people face," said William Elmore, administrator for the SBA's Office of Veterans Business Development. "Somewhere down the road we may have even additional or better tools."

Richard Parsons still has a lien on his house from an SBA loan he received when he was called to duty after the Sept. 11, 2001, attacks. Parsons, 42, owns the Churchville Veterinary Hospital in Churchville, N.Y., near Rochester.

More prepared than some, he had advertised for a replacement for when he was called up but had come up only with other veterinarians who could help occasionally. He said he already had "a ton" of debt from starting the clinic in 1997. His wife, the office manager, tried to keep the clinic running while he was away, but it was hard to keep clients who never knew if they would have a veterinarian available, he said.

His wife left her job with a pharmaceutical company to run his practice when he was called up. Parsons received a $72,000 loan to cover operating expenses while he was in Afghanistan, including the costs of veterinarians who filled in at the clinic until he returned.

Currently, the best advice for reservists who own small businesses is simply to prepare, said Ken Yancey, chief executive of the Service Corps of Retired Executives, a group that counsels small businesses. SCORE is trying to start an online counseling program for such reservists. "We can do our best work if we had our opportunity to spend time with them before deployment. But they are called up, go quickly and often haven't made plans," he said.

The Committee on Small Business
Subcommittee on Regulatory Reform and Oversight

Congress of the United States

Tuesday, June 21, 2005

Testimony of Pat Kerr, Missouri Veterans Ombudsman

Good afternoon, Mr. Chairman, members of the Subcommittee. I am the Missouri State Veterans Ombudsman. My name is Pat Kerr.

Thank you for inviting me to speak on possible changes that may be made to legislation to better prepare Global War veterans to successfully reenter the business community. I request that my testimony be submitted for the record.

As the former President and CEO of the largest court reporting firm in central Missouri, as well as having owned two other successful businesses, I am intimately familiar with what is required of a small business person.

Additionally, I am proud to say that I am the mother of Captain Katherine Numerick who served during Operation Iraqi Freedom, rotation 1, and is preparing to redeploy in the next few months. She is with me today.

We in the state of Missouri are very proud of the forward thinking of our Governor, Matt Blunt, a veteran himself, and our legislative body as we have successfully steered several bills through the 93rd Missouri General Assembly, including a Family Military Relief Bill, the establishment of the first State Veterans Ombudsman and adequately funding our veterans homes, cemeteries and veterans service officers.

As the State Veterans Ombudsman I work to bring the numerous government, private and non-profit services together to assist our wounded and those military returning to their

communities. In the last 7 months I have had the opportunity to coordinate private contributions for our wounded and financially strapped Global War veterans totaling close to $140,000 and have negotiated and kept several homes out of foreclosure for our recent veterans.

I have formed a national coalition with organizations like the VFW "Unmet Needs Program," Stan the Man Foundation located in Missouri and the Carolinas, USA Cares in Kentucky, Operation First Response outside of Walter Reed and the Coalition to Salute Americas Heroes in Virginia in an effort to maximize services and accessibility, to name a few.

Several hundred of Missouri's injured military have worked with me to sort through the problems they and their families have faced while deployed or upon their return.

Having shared that background with you, I thank you for your interest in being part of this team because it is you who drive the boat to make a difference for these Global War veteran business owners.

There are four actions Congress can take to improve Global War veteran entrepreneurship:

First, assist with federal funds for a Veterans Ombudsman in each state's veterans' commission with sufficient support staff to provide a single point of contact. Instate personnel incorporate state and local specific resources and have the networks in place within the communities to quickly access referrals for immediate response to the needs of our returned veterans.

Second, eliminate federal business taxes for Global War veteran entrepreneurs during their mobilization and deployment. I am truly not sure which is more difficult – maintaining a business while at war or restarting one after the veteran's return.

For National Guard and Reserve veteran businessmen and women who sacrifice to maintain their businesses and security for their employees, a stay on their federal business taxes would defray this inordinate expense.

Third, federally support community based organizations such as the St. Louis Veterans Business Resource Center which has immediate access to financial and professional support resources that can quickly assist these Guard and Reservists.

Fourth, keep deployments in the Army at a shorter duration. The Marines, Air Force and Navy all deploy their military at shorter durations than the Army. This has a significant impact on the ability to keep clients and maintain an ongoing business when over 40 percent of those deployed are Guard and Reservists who come back to their communities and businesses.

Why will these four actions make a difference to our Global War veteran entrepreneurs?

Nationwide, 17 percent of our military personnel are either business entrepreneurs or desire to open a business. In Missouri, more than 25 percent of the state's population are veterans when we include our recent returnees from the Afghanistan and Iraq areas of operation.

Failure to support our Global War small businessmen and women will result in decreased benefit to local, state, and thus, federal economies and continued peril in recruitment and retention for our Armed Forces.

How do I know this?

Having worked with hundreds of military across the United States, I have also worked with mobilized Reserve physicians in our state who have made 5 percent of their annual income based on their military salaries.

The annual overall loss of business for their 4-6 month deployment created a net 60 percent loss. These physicians chose to maintain their solo practices and continued to pay their employees, asking other healthcare professionals to cover their patients' needs.

While these acts saved the practice, the impact of that amount of care under another practitioner may cripple the business in the short-term, requiring significant rebuilding upon the service member's return.

Physicians are not the only service members impacted, obviously. Global War veteran businessmen and women own postal express stores and landscaping businesses, for example. And one of our Marine Reservists has reopened his construction business for the third time.

Currently there are military disaster loans available through the Small Business Administration. Unfortunately, these are often too little, too late.

It can take as much as 120 days or more to receive funds from the banks supporting SBA's disaster loans.

Even in the best circumstances, the service member must return home, re-acquire the clients, do the work, bill and wait to get paid – easily a 90 day cycle – without funds from their military positions or civilian small businesses. Meanwhile, they continue to sink in to additional debt.

Add to these factors the personal, psychological, and sometimes physical healing that must occur when our veterans return home.

For our wounded or injured veterans, their return to the United States does not provide access to their businesses. CONUS medical hold facilities are often far from home and thus prohibitive for travel, both in cost and distance – even a radius of 50 miles one way with the new CBOCs can be cost prohibitive when you are working from behind. Those injured who fall in

the 0 percent to 29 percent disabled category of the VA system are really hurt because there are not programs like DS3 to assist them since their acuity level is lower.

Tax relief during mobilization and deployment will enable more Global War veteran entrepreneurs to maintain their businesses while serving overseas.

Veterans Ombudsmen placed at the state level are capable of knowing national and state resources for veteran entrepreneurs as well as developing and maintaining knowledge and relationships at the local level. No matter how willing staff at the VA, the SBA or one source entities may be at the federal level, the volume of personnel and diversity of available resources and resulting needs are simply insurmountable.

It must be done at the state level for all service members. Not asking states to assist with this responsibility risks inconsistent application. The answer is not seating these personnel within the State Guard structure which often excludes Reserve military and veterans from other services. A Marine is simply not going to call the Army and Air National Guard.

I have been asked what makes this veteran business person of the Global War on Terrorism any different than a previous veteran or for that matter any different than any other business man or woman.

I submit to you that September 11, 2001 is the answer.

As you know, this is the first time since the Korean War that there has been a call out of our military to this magnitude. The use of the states' National Guard and Reservists puts the military member back in to civilian life after deployment without a strong military network such as the one in place for active duty.

National Black Chamber of Commerce
1350 Connecticut Avenue NW Suite 405, Washington DC 20036
202-466-6888 202-466-4918fax www.nationalbcc.org info@nationalbcc.org

Veteran's Access to Capital

Congressional Testimony By:

Harry C. Alford
President/CEO, National Black Chamber of Commerce, Inc.
June 21, 2005

Delivered to:

Subcommittee on Regulatory Reform & Oversight
Honorable W. Todd Akin, Chairman

Chairman Akin, Ranking Member Bordallo and distinguished members of the Small Business Regulatory Reform and Oversight Subcommittee I am honored to be given a chance to testify today about the challenges faced today by our most prized citizens – the US Military. The challenges are new and have sharp contrast to the environment faced by soldiers of the past.

This nation has always, in some form or another, recognized its veterans. Land grants, special bonuses, and eventually the GI Bill of Rights have been used to honor the sacrifice of those who defended this nation. The GI Bill of Rights, subsequent to World War II, is the prime reason for the development of the American middle class via opportunities in home ownership and education.

I was drafted into the US Army in 1971. As a college graduate with a prized job with Procter & Gamble, a wife and a second child on the way, this was going to be a great financial challenge. In retrospect I had two strong things in my favor, a strong faith in God and an unconditional love for this nation. In eight months I was commissioned a 2nd Lieutenant and served two years of permanent duty at Dugway Proving Grounds, UT. We made it through it all and upon discharge I returned to Procter & Gamble. It was assumed and realistic during those times that your civilian job will be waiting for you upon your return. I also had valuable benefits in terms of free education and home ownership. It made one so proud – to love his country and have his country love him back. I am as proud today as I ever was about serving my country.

Today's military is quite different. Many of those serving in combat zones do not exactly know the length of their tour of duty. Those in the National Guard or Reserve Units can be called up suddenly and endure much financial pain and upheaval. To the business owner this can be financially fatal to his enterprise. Today's economy is not big business/job oriented as before. Small business is a growing and large entity in the US economy today. It provides 70% of all new job growth in this nation. The percentage of business owners serving in the nation's military is exponentially greater than during the conflicts of the past.

Upon returning from combat an entrepreneur can find financial chaos. Tragic things such as bankruptcy, credit damage and all the ills that come with that such as domestic stress and emotional disrepair. The veteran benefits for today's soldier are lacking and don't address modern day society as they should. Let us focus in on the veteran who is a business owner or is becoming a business owner. There should be some kind of benefits that apply to the modern economy.

Let me first say before I make some recommendations that it saddens me to hear people say that government guaranteed loans are needless "entitlements", "handouts" or "taxpayer giveaways". Members of this committee, these are not handouts or giveaways, the American veteran has a right to programs to offset the sacrifice made for this nation. It is a debt owed to each and every veteran who has put his/her life on the line.

Many of these combat veterans will not be in that delivery room when their child is born. They won't be there to witness the first little league home run by their son. They won't be there at their daughter's baptism. No, no they will be far away in a strange land -- catching Hell. Far too many will not come back "whole" and far too many will not come back alive. These men and women lay it all out for the safety of each and every one of us. This nation is too great and too proud to let its heroes go unrecognized. It is time to make the modern GI Bill of Rights applicable to the soldier's needs of today.

The current 7(a) loan program (SBA guarantee) has been quite successful in developing new business and creating new jobs. It provides 30% of all long term loans and is a proven job creator. Last year alone, the 7(a) program generated half a million jobs across America. That is one job for every $33,000 loan. As these veterans return from combat, the demand on 7(a) loans is going to rise. We need to increase the amount of funding for the 7(a) loan program. At least, reserve a significant pool for modern day veterans who can resurrect their business standing after their absence.

In addition to those veterans already in business, veterans who may consider entrepreneurship should also be encouraged to take advantage of the 7(a) loan program. Veteran incentives such as lower fees or lower interest rates can be established. This is the least we can do for our new heroes.

Finally, while a business owner serves his/her nation for indefinite tours his business suffers from his absence. This absence may extend to the point of damaging the growth of his business and may even lead to the demise of the enterprise. As the veteran puts his life on the line to protect this country we should provide him/her with some form of insurance that can provide some type of protection during his absence. "Key Man" insurance with affordable rates for the veteran's business should be provided during combat tours. As the veteran protects us, we can protect his business with some form of alternative to financial collapse. Key Man insurance is not costly and I believe a study should be done to determine the feasibility of such a plan for the veteran business owner.

Key Man insurance, greater availability of the 7(a) program with special rates and fees should be considered for the modern day veteran who is an entrepreneur. A nation that honors and respects its veterans is a nation that can endure.

Again, thank you all for this opportunity.

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