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NOMINATION OF STEVEN C. PRESTON TO BE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

JUNE 21, 2006

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C O N T E N T S

Opening Statements

	Page
Bond, The Honorable Christopher S., a United States Senator from Missouri	1
Snowe, The Honorable Olympia J., Chair, Committee on Small Business and Entrepreneurship, and a United States Senator from Maine	6
Kerry, The Honorable John F., a United States Senator from Massachusetts	16
Coleman, The Honorable Norm, a United States Senator from Minnesota	18
Vitter, The Honorable David, a United States Senator from Louisiana	23
Durbin, The Honorable Richard J., a United States Senator from Illinois	23

Witnesses

Preston, Steven C., nominee to be Administrator of the Small Business Administration	24

Alphabetical Listing and Appendix Material Submitted

Allen, George	
Prepared statement	90
Bond, The Honorable Christopher S.	
Opening statement	1
Prepared statement	3
Letter from Deputy Director for Extramural Research, NIH to the Director, Natural Resources and Environment, GAO re: SBA's eligibility rules for Small Business Innovation Research (SBIR)	4
Coleman, The Honorable Norm	
Opening statement	18
Prepared statement	20
Durbin, The Honorable Richard J.	
Opening statement	23
Kerry, The Honorable John F.	
Opening statement	16
Landrieu, Mary L.	
Prepared statement	93
Preston, Steven C.	
Testimony	24
Prepared statement	27
Response to written questions submitted by:	
Hon. George Allen	30
Hon. John Cornyn	32
Hon. Mary L. Landrieu	33
Hon. John F. Kerry	37
Endorsement Letters:	
Steven VanDenberg, President/CEO VVV Corporation	49
Steven Arcieri, President Arcieri & Associates	50
Daniel Kenary, President and Co-Founder, The Harpoon Brewery	53
Association of Graphic Communications	55
National Association of Federal Credit Unions (NAFCU)	56
NFIB praises Steve Preston's appointment as SBA Abministrator	57
U.S. Chamber of Commerce press statement	58
Credit Union National Association (CUNA)	59
Carpet and Rug Institute of America	60
Herbert Hess, President and CEO North America Management Company	61
Luis Iza of Iza Brothers, Inc	63

Page

—Continued
James N. Hallene, Capital Concepts Holdings, LLC 64
Charles P. McCarsker, Patriot Capital, L.P 65
Illinois Delegation, U.S. House of Representatives 66
R. Bruce Josten, Government Affairs 68
Trevor Price, Nature Technologies, Inc 69
Michael Isakson, Service Master Clean 71
Congressman Harold Ford, Jr., U.S. House of Representatives 72
Daniel A. Mica, Credit Union National Association 73
Snowe, The Honorable Olymphia J.
Opening statement 6
Prepared Statement 10
Vitter, The Honorable David
Opening statement 23

NOMINATION OF STEVEN C. PRESTON TO BE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION

WEDNESDAY, JUNE 21, 2006

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP,
WASHINGTON, DC.

The Committee met, pursuant to notice, at 10:30 a.m., in room SR–428, Russell Senate Office Building, the Honorable Olympia Snowe (Chair of the Committee) presiding.

Present: Senators Snowe, Bond, Coleman, Thune, Isakson, Vitter, Kerry, and Pryor.

Senator SNOWE. The hearing will come to order and before I give my opening statement I am going to turn to Senator Bond who was the former Chair of this Committee and provided outstanding leadership on behalf of the small business community throughout America. I know he has a very tight schedule this morning with so many conflicts, so I would like to turn to him before I give my opening statement.

OPENING STATEMENT OF THE HONORABLE CHRISTOPHER S. BOND, A UNITED STATES SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Madam Chair. It is great to be back and see lots of old friends again and I thank you so much for allowing me to go out of order, because I do have a bunch of things backed up today as we all do. I have a longer statement for the record which I will relieve you of hearing, however, I do want to say that I have had the pleasure of meeting Mr. Preston and talking with him over 2 weeks ago and I have received numerous letters of support saying what a good choice he is, and I believe that he will do an excellent job as the new Administrator.

He has had 25 years experience in leadership at ServiceMaster, First Data, and Lehman Brothers, and I think this is going to give him the necessary business and financial knowledge and skills to really do something for the small business community that is still the driving force and the generator of new jobs in the economy. We do not need Government control, but where Government can assist through the SBA, I think it is a vital role and the people who commented to me about Mr. Preston say he has a reputation as a sensible, results-oriented leader with a high level of integrity and determination to work tirelessly. So I am strongly supportive of him and I hope this Committee will report him out and then we will get him confirmed quickly to get him on the job, because I have something I would like to ask of him.

On June 16th the Deputy Director for extramural research at the National Institutes of Health sent a letter to the Director of Natural Resources and the Environment at the GAO regarding the SBA eligibility rules for small business innovation research. This is something that concerns me a great deal because we have heard from too many people in the biotech area and other areas, that the rules of the SBA are unnecessarily restrictive. And that letter states that the rules for grants are unduly restrictive and still exclude some business concerns that may contribute to important medical research, particularly in the biotech sector. NIH believes the impact of current eligibility rules presents a significant roadblock in our technology development pipeline and ultimately in the speed in which important products to improve health are brought to the market.

I will leave a full copy of the letter for the record and ask that Mr. Preston, when you have an opportunity to review it, that you review the letter and the suggested remedies that they have and that you notify this Committee because this is something we have been working on for a long time. Madam Chair, thank you very much for your time. I really appreciate the consideration.

[The prepared statement of Senator Bond and the information referred to follows:]

Statement of Senator Bond re: Steven C. Preston
June 21, 2006

Madam Chair, thank you for allowing me to speak out of order. I would like to insert my entire statement for the record. I have a terribly busy schedule today, but I wanted to be sure and come over and offer my support for Mr. Preston whom I had the honor of meeting two weeks ago.

Since that time, I have received numerous letters supporting Mr. Preston's nomination as Administrator of the Small Business Administration. I believe that he will do an excellent job succeeding Mr. Hector Barreto.

Mr. Preston's 25 years experience in leadership at ServiceMaster, First Data, and Lehman Brothers will provide him with the necessary business and financial knowledge and skills to guide the SBA.

From the letters I have received Mr. Preston has a reputation as a sensible, results-oriented leader with a high level of integrity and a determination to work tirelessly for the small business community. I am therefore of the opinion that Mr. Preston will be an asset to the SBA and I intend to support his nomination.

However, I would like to ask Mr. Preston to comment upon a June 16, 2006 letter from the Deputy Director for Extramural Research, NIH to the Director, Natural Resources and Environment, GAO regarding the SBA's eligibility rules for Small Business Innovation Research (SBIR). NIH states that the rules for "grants are unduly restrictive and still exclude some business concerns that may contribute to important medical research, particularly in the biotechnology sector. NIH believes that the impact of current eligibility rules presents a significant roadblock in our technology development pipeline and ultimately in the speed in which important products to improve health are brought to market."

NIH also posits a possible solution, if Mr. Preston would also comment upon that.

I would ask to submit the entire letter from NIH for the record.

Thank you Madam Chair.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

National Institutes of Health
Bethesda, Maryland 20892

June 16, 2006

Ms. Anu K. Mittal
Director, Natural Resources and Environment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Mittal:

The National Institutes of Health (NIH) appreciates the opportunity to provide additional comments on the U.S. Government Accountability Office (GAO) report entitled "Small Business Innovation Research: Information on Awards Made by NIH and DoD in Fiscal Years 2001 Through 2004" (GAO-06-565).

The GAO report does not address NIH's central concern, which is that the Small Business Administration's (SBA) eligibility rules for Small Business Innovation Research (SBIR) grants are unduly restrictive and still exclude some business concerns that may contribute to important medical research, particularly in the biotechnology sector. NIH believes that the impact of the current eligibility rules presents a significant roadblock in our technology development pipeline and ultimately in the speed in which important products to improve health are brought to market.

Although the GAO report provided data on the role of venture capital investments in the SBIR program, it did not make recommendations concerning eligibility for SBIR awards vis-à-vis venture capital ownership. However, the report provides useful information. It does note that "research in specific fields, such as biotechnology" is "relatively costly to conduct."

Biotechnology requires high, intense capital needs, in part because of the extensive regulatory requirements unique to this field (e.g., FDA approval). This arena of research requires significant investments by venture capital entities, many of which may not be majority owned by individuals or other businesses that meet SBA standards.

The world of biotechnology research by small innovative companies has undergone drastic changes in the last ten years. Today, the risk levels are higher, the "burn rate" for research funds is intensifying, and development times to bring nascent ideas to market are growing longer. Small biotechnology companies face ever-increasing demands for capital. In areas such as drug development, drug discovery, and therapeutics, less than one percent of the innovative, promising projects reach the marketplace.

These circumstances, among others, illustrate the unique challenges facing many start-up or early-stage biotechnology companies. Indeed, NIH is aware of small companies that must seek financing on multiple fronts, including substantial venture capital investments, to enable them to explore and develop new drugs, devices, and therapies to improve public health. Companies that receive such support often have some of the best proposals for new and creative early research. In NIH's view, the SBA's individual ownership standards deny the opportunity for many small companies to conduct promising biomedical research under the SBIR program. For example, because of these standards, many small businesses are left out, especially some businesses that are majority owned by multiple venture capital firms, and that is the key reason for NIH's concerns about the SBA's eligibility rules.

NIH believes that a possible solution to the problem facing ineligible small businesses would be to expand eligibility to include small businesses that are owned and controlled, at least in part, by a single venture capital firm or multiple venture capital firms, provided that at least 51 percent of the small business is owned by U.S. individuals and/or venture capital firms that are owned no more than 49 percent by foreign business entities or individuals, and, provided further, that applicable small business affiliation standards are satisfied.

NIH is committed to ensuring that only *small* business concerns receive SBIR awards. To advance this goal, and ensure that NIH also meets its need to support deserving research and development that may contribute to important medical research, particularly in the biotechnology sector, NIH believes its proposed solution offers a well-tailored and defensible means to resolve the problem.

Sincerely,

Norka Ruiz Bravo

Norka Ruiz Bravo, Ph.D.
Deputy Director for Extramural Research, NIH

Senator SNOWE. I thank you Senator Bond and I appreciate your comments and we will include your entire statement and the letters and follow-up information in the record without objection. Thank you.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM MAINE

Senator SNOWE. Mr. Preston, I want to welcome you and your wife Molly to the Committee on Small Business and Entrepreneurship, and I also want to thank Senator Kerry for working with me to arrange this nomination hearing this morning so that we can move expeditiously to provide the leadership at the Small Business Administration at a crucial time. We intend to work closely as a Committee with the SBA in the upcoming months as we move forward with the reauthorization process of the SBA programs.

In every Presidential Administration it can be remarkably difficult to attract the best and the brightest to serve in important Government jobs and we are very pleased that Mr. Preston is making a sacrifice by leaving his business and his profession for the opportunity to lead the Small Business Administration, which is certainly a vital component of economic growth in America.

Certainly the numbers speak for themselves when you know that small businesses represent 99.7 percent of all employer firms, employ half the private sector employees in the country, as well as generating two thirds of all net new jobs that are created in America on an annual basis. So our Nation of small businesses deserve a true champion—one who is a megaphone for small businesses and reflects the deep and unwavering commitment to the success of America's 25 million small businesses.

The next Administrator will be assuming enormous challenges that the agency has faced especially in the areas regarding the SBA's disaster response. The SBA's response to Hurricanes Katrina and Rita was subpar, leaving some disaster victims waiting 3 months or more for loans to be processed. This Committee consistently demanded more effective relief in hiring additional employees to process loans and coordinating with local resource partners. Significantly, the SBA waited 2 months before taking action when it should have been the moment for the SBA to shine and showcase its' abilities to contribute substantially to the rebuilding.

Certainly the SBA was the lifeblood in the reconstruction of the economic infrastructure in the Gulf region. Now, while over 99 percent of all the applications have been resolved and over $10 billion in loans approved 10 months later, it is deeply disturbing that only 20.52 percent of the money has been disbursed. If the disaster victims do not receive the vital disaster loan funding, the rebuilding of the Gulf Coast region cannot continue and it certainly cannot be sustained.

Looking forward it is essential that SBA collectively develop a comprehensive and flexible disaster plan, find a remedy for every problem that prevented or delayed the agency's front-line employees working in the disaster zone from aiding victims and be aggressive in responding to future disasters to assist America's small businesses and disaster victims.

It is also essential that the next SBA Administrator is fully committed to supporting the agency's mission "to assist, counsel, and protect the interests of small business". Given the clear importance of small businesses to maintaining a strong and vibrant economy, strong leadership is clearly required at the SBA to advocate for the innovators and risk takers of the Nation.

While the challenges affecting the SBA are significant, we are confronted with new beginnings—a chance to improve and revitalize the Small Business Administration and its programs and confirm a new administrator. We must take advantage of the opportunity to build a new vision through the rebirth of the Small Business Administration.

For example, since 1999, the SBA has helped to create or retain over 5 million jobs. While this is a tremendous contribution to our economy, we must collectively ask how we can improve the SBA to assist more businesses, to create more jobs and eliminate the many roadblocks entrepreneurs face.

Yet, for Fiscal Year 2007, I am truly disappointed by the Administration's weak budget proposal of $634 million. The SBA has continued a dangerous trend of reducing its budget by an astounding 37 percent since 1999. Moreover, it concerns me that the SBA failed to include the agency it has helped to create and retain over the last year. Needless to say, this does not recognize the tremendous investment that SBA has been able to return on investment and has not obviously been amplified in any respect. This is especially true when you consider the SBA's return on investment versus the agency's budget that is less than 3/100 of 1 percent of the total Federal budget.

With the uncertainly in the economy, the problems facing small businesses are substantial and the SBA unquestionably must be at the forefront in providing the financial and business development tools for the success of entrepreneurs and small businesses across the United States.

In 2005, the SBA programs disbursed record-breaking totals of loans to small businesses, both in the number of loans and total dollar value provided to small businesses. During the last fiscal year, the SBA guaranteed over $24 billion in loans and venture capital for small businesses, the highest level of capital ever provided. SBA loan and investment programs have produced success story after success story, which included founding the Intel, Staples, America Online, Federal Express, Outback Steakhouse, Ben & Jerry's, Callaway Golf, as well as thousands of other successful businesses.

In April, I chaired a hearing that will lead to reauthorization of the SBA's finance and entrepreneurial development programs. The next SBA Administrator will be an integral part of that process. I hope the reauthorization will lead to a renewed SBA that is completely dedicated to fostering small business ownership in America and, if confirmed, I look forward to working closely with you, Mr. Preston, in this effort.

The Administrator of the SBA has the ability to be not only a spokesperson, but also an advocate for small businesses and their issues.

In Maine and throughout the country, small business owners have repeatedly told me that their primary concern is the cost of health insurance. This crisis is real and an undue burden on entrepreneurs throughout America and requires bold solutions. We have been working on small business health insurance plans, but regrettably, we have not been able to resolve that issue on the floor of the U.S. Senate—hopefully, we can at some point, before we adjourn this session and also the tax incentives to provide employers with small firms with quality health insurance at an affordable cost.

Mr. Preston, I know you understand our tax code is overly complicated and time-consuming, and it certainly is expensive for all Americans, and most especially for our Nation's small businesses. Despite the fact that small businesses are the real job creators for our nation's economy, the current tax system places an entirely unreasonable burden on them as they seek to satisfy their tax obligations. The Administrator of the SBA can weigh in on these issues to promote solutions that benefit small businesses.

The SBA Administrator must also uncover, monitor and correct managerial mistakes, avoid lax implementation of laws, and prevent the waste, fraud, and abuse of taxpayer funds. If confirmed, this will require your urgent attention as well.

Looking at access to capital, I hope, Mr. Preston, that you will join this Committee in rejecting any attempt to charge additional fees on small businesses in the 7(a), 504, and SBIC programs. The SBA has proposed a fee increase on small businesses to raise $7 million in revenue, which will be used for the SBA's administrative costs. Increasing fees paid by small businesses is not the way for the Administration to be balancing the budget. These small businesses are already paying fees and taxes to fund the Agency and it is unacceptable to make it more costly for them to access financing. There are already zero subsidy programs and they have already paid their price and now they are imposing additional fees and costs to small businesses to access the lifeblood of SBA programs that are so important to spurring economic growth in America.

We have seen what can happen without vigilant and precise leadership which was epitomized by the December 2005 SBA Inspector General's report that found eligibility could still not be determined for 85 percent of the September 11th STAR loans reviewed. The SBA must do everything possible to prevent a similar bureaucratic fiasco.

Similarly, given recent discoveries of small businesses losing prime contracting opportunities to large businesses due to poor oversight of contracting laws, it is absolutely essential for the next SBA Administrator to guarantee that 23 percent of the Federal contracts are given to small businesses, which is required by law.

For an incoming SBA Administrator, these are only a few of the challenges and problems that must be managed successfully. And certainly I know we have had this discussion, Mr. Preston, on a variety of these issues, but I really do think that there are a wide array of challenges facing you as an SBA Administrator; first and foremost, the disaster loans and the response to the Gulf region and the hurricanes last fall and the onset of another hurricane sea-

son. We have a lot of issues that we are going to have to reconcile above and beyond the budgetary and the authorization issues questions that I think have undercut significantly these programs that have tremendous value, not just to small businesses, but to America.

So, I am looking forward to working with you and appreciate your energy and your sincerity and enthusiasm for moving forward on these questions, and obviously we will explore them further with you in this hearing. With that I will turn to the Ranking Member of this Committee, Senator Kerry.

[The prepared statement of Senator Snowe follows:]

Senator Olympia J. Snowe
Chair, Senate Committee on Small Business and Entrepreneurship
HEARING
"The Nomination of Steven C. Preston As SBA Administrator"
June 21, 2006

Opening Statement

Good morning and thank you all for being here today to consider the President's Nomination for the Administrator of the Small Business Administration. Mr. Preston, I welcome you and your wife Molly to the Committee on Small Business and Entrepreneurship.

First, I would like to thank Senator Kerry for working with me on this nomination and hearing. We intend to work closely together as a Committee and with the SBA in the upcoming months as we move forward with the reauthorization process of SBA programs. And of course I am pleased to have my colleague, Senator Durbin, here to introduce Mr. Preston this morning.

In every Presidential Administration it can be remarkably difficult to attract the best and brightest to serve in important government jobs. We should not lose sight of the fact that Mr. Preston is making a sacrifice by leaving his business for the opportunity to lead the SBA. Let me tell you why I think the SBA is a vital component of any economic growth agenda and why it should be viewed as an honor to head such an agency.

The numbers really speak for themselves – small businesses represent 99.7 of all employer firms, employ half of all private-sector employees, and generate almost three-quarters of all net new jobs annually.

For this reason, our nation's entrepreneurs deserve a true champion....a megaphone for small businesses. The SBA Administrator must have a deep and unwavering commitment to the success of America's 25 million small businesses.

The next Administrator will be assuming enormous challenges, especially in areas regarding the SBA's disaster response. The SBA response to Hurricanes Katrina and Rita was subpar, leaving some disaster victims waiting three months or more for loans to be processed. This Committee consistently demanded more effective relief in hiring additional employees to process loans and coordinating with local resource partners, however, the SBA waited 2 months before taking action, when it should have been the moment for the SBA to shine and showcase how it can help contribute to the rebuilding.

Now, while over 99 percent of all applications have been resolved and over $10 billion in loans approved 10 months later, it alarms me that only 20.52 percent of the money has been disbursed. If disaster victims do not receive the vital disaster loan funding, the rebuilding of the Gulf Coast region cannot continue.

Looking ahead it is essential that the SBA collectively develop a comprehensive and flexible disaster plan, find a remedy for any and every problem that prevented or delayed the agency's front-line employees working in the disaster zones from aiding victims and be aggressive in responding to future disasters to assist America's small businesses and disaster victims.

It is essential that the next SBA Administrator is fully committed to supporting the agency's mission – "to assist, counsel, and protect the interests of small business". Given the clear importance of small businesses to maintaining a strong and vibrant economy, strong leadership is clearly needed at the Small Business Administration to advocate for the innovators and risk takers of the nation.

While the challenges affecting the SBA are significant, we are confronted with new beginnings – a chance to improve the SBA and its programs and confirm a new administrator. We must take advantage of this opportunity to build a new vision through the rebirth of the SBA.

For example, since 1999, the SBA has helped create or retain over 5 million jobs. While this is a tremendous contribution to our economy, we must collectively ask how can we improve the SBA to assist more business, to create more jobs and eliminate the many roadblocks entrepreneurs face.

Yet, for Fiscal Year 2007, I am truly disappointed by the Administration's weak budget proposal of $624 million. The SBA has continued a dangerous trend of reducing its budget by an astounding 37 percent since 1999. Moreover, it concerns me that the SBA failed to include the jobs the agency has helped to create and retain over the last year. Needless to say, the SBA is the government's "Biggest Bang for its Buck" and has a positive return on investment, a term Mr. Preston understands. This is especially true when you consider the SBA's return on investment verses the agency's budget is less than 3/100 of one percent of the total federal budget.

With the uncertainty in the economy, the problems facing small businesses are great and the SBA unquestionably must be at the forefront in providing the financial and business development tools for the success of entrepreneurs and small businesses across the United States.

In 2005, SBA programs disbursed record-breaking totals of loans to small businesses, both in the number of loans and total dollar value provided to small businesses. During the last fiscal year, the SBA guaranteed over $24 billion in loans and venture capital for small businesses, the highest level of capital ever provided. SBA loan and investment programs have produced success story after success story, which include assisting the founders of Intel, Staples, America Online, Federal Express, Outback Steakhouse, Ben & Jerry's, Callaway Golf, as well as thousands of other successful businesses.

In April, I chaired a hearing that will lead to the reauthorization of the SBA's finance and entrepreneurial development programs. The next SBA Administrator will be an integral part of this process. I hope reauthorization will lead to a renewed SBA that is completely dedicated to fostering small business ownership in America and, if confirmed, I look forward to working closely with Mr. Preston in this effort.

The Administrator of the SBA has the ability to be not only a spokesperson but also an advocate for small businesses and small business issues.

In Maine and throughout the country, small business owners have repeatedly told me that the cost of health insurance is their number one concern. This crisis is real and an undue burden on entrepreneurs throughout America. It did not appear overnight and requires bold solutions.

I have lead the fight for Small Business Health Plans and for tax incentives to provide employees of small firms with quality health insurance at affordable costs.

Mr. Preston, I know you understand our tax code is overly complicated, time-consuming and tedious for all Americans and most especially for our nation's small businesses. Despite the fact that small businesses are the real job-creators for our nation's economy, the current tax system places an entirely unreasonable burden on them as they seek to satisfy their tax obligations. The Administrator of the SBA can weigh in on this issue to promote solutions that benefit small businesses.

Looking at the access to capital, I hope Mr. Preston will join me in rejecting any attempt to charge additional fees on small businesses in the 7(a), 504, and SBIC programs. The SBA has proposed a fee increase on small businesses to raise $7 million in revenue, which will be used for the SBA's administrative costs. Increasing fees paid by small businesses is not the proper way for the administration to balance the budget. These small businesses are already paying fees and taxes to fund the Agency and it is unacceptable to make it more costly for them to access financing.

The SBA Administrator must also uncover, monitor and correct managerial mistakes, avoid lax implementation of laws, and prevent the waste, fraud, and abuse of taxpayer funds. If confirmed, this will require your urgent attention, Mr. Preston.

We've seen what can happen without vigilant and precise leadership, which was epitomized by the December 2005 SBA Inspector General report that found eligibility could still not be determined for 85 percent of the September 11th STAR loans reviewed. The SBA must do everything possible to prevent a similar bureaucratic fiasco.

Similarly, given recent discoveries of small businesses losing prime contracting opportunities to large businesses due to poor oversight of contracting laws, it is absolutely essential for the next SBA Administrator to guarantee that 23 percent of Federal contracts go to small business, which is required by Federal law.

For an incoming SBA Administrator, these are only a few of the challenges and problems that must be managed successfully. From family farms to software development, small businesses form the backbone of our economy and provide much of the innovation that moves our country forward. Americans who assume the risk and responsibilities inherent in owning and operating a business deserve our praise and admiration. Congress and the SBA Administrator must ensure that the spirit of entrepreneurship remains strong in America, and we should always give small businesses the support they need to thrive.

I hope we can move forward quickly with Mr. Preston's nomination. I know the task of reading and digesting in-depth information about the SBA must have been a challenge, and I appreciate the energy and sincerity with which Mr. Preston has approached this nomination. Our ultimate goal is to ensure that the SBA will operate in the most effective, efficient, and economical manner possible.

OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY, A UNITED SENATOR FROM MASSACHUSETTS

Senator KERRY. Thank you very much, Chair Snowe. I appreciate your comments and want to thank you and your staff for working with us as always on this nomination and on other issues. We look forward to continuing to work in a bipartisan fashion on this and othe Committee-related issues that come before us. Senator Durbin is here; sometimes he's the one who sits up here and hears the opening statements from the other side, or provides them. I will try to keep my statement brief, because I know he is busy and we want to get to the matter ahead.

I think the Chair has made a very important and comprehensive statement that really reinforces what we talked about when we met with Mr. Preston. There really is a bipartisan consensus here on this Committee. There are not a lot of labels by either party attached to most of our concerns. Our work is about small business and many of the businesses in America are small, and most of the big businesses started in a garage or in the back seat of a car or some similar placewhere.

Mr. Preston, we welcome you here today. We are glad you are willing to take on this difficult task, made difficult not just because of the issues, but frankly made difficult because of some of the internal struggles you will face within the Administration. We welcome your wife here and we are delighted she is prepared to share with you this public effort.

We have talked about a number of the issues facing the new Adminstration and I just would like to run through a few of these issues publicly today. I certainly look forward to hearing in a little greater detail how you plan to do a number of things if confirmed.

Mr. Preston, you are a serious nominee and I think you are an impressive nominee compared to some we have seen who come from a more political background. I welcome your nomination. I think you bring terrific business acumen. You bring a wealth of management experience to an agency that is woefully in need of real, solid management.

Chair Snowe talked about the disaster loan program. Everybody on this Committee, though they are not all here today, shares an enormous concern about the oversight of Federal contracting and the disaster program. Here we have seen the SBA falter badly. Ten months since Hurricane Katrina and the delays in getting victims the loan money they badly need, as the Chair mentioned, is critical. I am not going to spend much time on that.

Deep budget cuts have taken place—37 percent—the deepest experienced by any Federal agency in this Administration, and they have left key programs understaffed. Efforts to eliminate key programs, like the Micro-Loan program, the PRIME and the New Markets Venture Capital program, have undermined access to capital and business counseling for small businesses, especially the smallest of firms who are most in need.

The morale at the SBA is frankly at an all-time low—it is certainly as low as it has been at anytime in the 21 years I have been on this Committee, and capable employees have moved on. There is a great deal to be done to invigorate this Agency. I am confident from our conversation that you intend to be an aggressive advocate

for small business. I hope you will be true to that intention. There has been too much politics and too little effort at marshaling a bipartisan consensus to help make good things happen. My sense is you do not come to this appointment with a political agenda and I urge you to trust your instincts to do the right thing on behalf of small business.

This Agency needs to live up to its full potential; with the investment and counseling and intervention capacity that it has, it can make a huge difference in people's lives all across the country, particularly with this amazing transition that is taking place with globalization. Americans are increasingly becoming involved with startup cottage industry type efforts, and the SBA can play a role in this transition.

It is also important that you fight for a realistic budget. Every Member of this Committee is exasperated from seeing these budgets that are driven by OMB and frankly, by a lack of commitment and respect for the SBA. It is clear that there is an ideological disbelief in what the SBA does and that this Administration is content to watch it wither on the vine. As the SBA is choked of funding, the SBA Administrator has spent his time traveling around the country, advocating administrative proposals that often do not reflect the real needs of small business.

What small businesses really need is an Administrator who will consider the impact of budget cuts on small businesses and disaster victims, who will vigorously fight for a budget that fully funds SBA programs against budgets that propose unprecedented administrative fees on small business loans. When you raise fees that high, you make it difficult for this agency to do what it was set up to do, which is to help provide a cushion for some of the lending that will not happen normally in the private sector. As fees continue to increase, the loans become comparable to those in the private sector. By raising the fees, we are eliminating the differential that is at the fundamental purpose of the Agency itself.

Small businesses also need you to be a watchdog when it comes to Federal contracting, a point I made privately during our meeting. The record of the last few years is just plain appalling. There has been an overstating of Federal small business contracting numbers that is dishonest. The SBA has closed its office dedicated to veteran's contracting, which is hard for me to believe when we have so many veterans coming back from Iraq and Afghanistan. Implementation of the Women's Contracting Program continues to be delayed. It has been delayed now for 6 years. The SBA IG reports and the GAO reports reveal a real pattern of neglect, a pernicious pattern of neglect when it comes to SBA's oversight of Federal contracting to assure fair access to small firms.

I hear it all over the country when I meet with small firms. They keep telling us that they are getting squeezed out, that contracts are either bundled for large firms or they go to a firm that did not really qualify. Report after report indicates that the SBA needs more staff to oversee Federal contracting. When this Committee requests accurate data on small business contracting numbers, it is rebuffed.

Contracting oversight is a serious problem and I would like a commitment from you today, sir, to press for better data and be

willing to acknowledge that the Agency has got to step up and provide greater oversight. Above all, what we really are asking is that you do not to come back here and repeat the mantra of the last few years, which is that the SBA finds it possible to do more with less. For a year or so that may have been true, but at some point, and I believe we have reached that point, it is just not possible. The mantra is worn out. Small Business Development Centers have had to reduce services. Many have waiting lists for small businesses just to meet with a counselor. Some of our womens' business centers are on the verge of shutting down, and lending to minorities has been generally flat or has gone down, particularly dollars loaned to African-Americans and women.

The SBA has a unique role to play in fostering entrepreneurship, and I am confident you will be confirmed. As I said, we welcome the strengths you bring to this job. In the 21 years that I have been on this Committee, I have never seen the SBA in as great a state of crisis and disarray as it is today.

My final comment is this: Whatever that ideology is that has been driving this starvation policy, it is misplaced. The Chair listed a number of the businesses that have been successful and started with small business lending, and chief among them are companies like Intel, FedEx, Callaway Golf, and so forth. The entire budget of the SBA, pre-cuts, has been paid many times over by the taxes paid by the companies they have loaned to that have been successful. It is so shortsighted, particularly in this new globalized marketplace that entrepreneurs are trying to compete in. You know a lot about that. So we welcome you. We look forward to your service and we hope to have, frankly, a different era in the 2 years that remain of this Administration, to really see the SBA turn the curve and do what it is capable of doing. Thank you.

Senator SNOWE. Thank you, Senator Kerry. You can see there is a lengthy agenda awaiting you, Mr. Preston.

Senator Coleman, do you care to make any remarks?

OPENING STATEMENT OF THE HONORABLE NORM COLEMAN, A UNITED STATES SENATOR FROM MINNESOTA

Senator COLEMAN. With respect to the Assistant Democratic Leader, I will keep my remarks very brief and ask that they be submitted for the record.

Just two observations: One to Chairman Snowe, what you articulated about the importance of an advocate, about the importance of a champion and that is all very clear. And then I think it is clear that Katrina was not one of the shining moments of the SBA and the hurricane season is on us again. Let us learn from our experience.

I have a deep concern about the micro-loan program; we tout it internationally that this is a great thing, yet at home we are continually rebuffing efforts to get rid of it. It is important and we need to continue moving forward in that regard.

And last, we have a special concern about rural development. Rural small business is important and I would hope that you would explore this in further questioning, that we do not kind of turn a blind eye to some of the needs and opportunities in the rural communities. With that I look forward to supporting this nomination

and I appreciate your commitment to serve and the skills you bring, but there are certainly challenges ahead and we need to work together to resolve them. Thank you.

[The prepared statement of Senator Coleman follows:]

SENATOR COLEMAN
OPENING STATEMENT

Thank you Madame Chair.

Mr. Preston welcome and congratulations on your nomination. You come before the committee with a record of significant corporate executive leadership from Wall Street to the heartland, a stellar educational background and a commendable commitment to the community.

As a former mayor and member of this committee, I have a strong understanding and appreciation for the importance of small businesses for our economy. In my mind, the best economic development and jobs program does not come from Washington, the state capital or for that matter city hall but rather from small businesses themselves. During my time as mayor, small businesses played a critical role in the revitalization of St. Paul.

And since my arrival to the Senate in 2003, small businesses have helped lead this economy to a strong and enduring recovery. Thanks in great part to small businesses, more than 5.2 million jobs have been created in the past three years while the unemployment rate has fallen to 4.6 percent.

That said what we do here in Washington does have an impact on small businesses. That is why it is important we pursue polices that support the formation of new businesses and the expansion of existing businesses from easing the tax burden on small businesses to providing small businesses the ability to band together to offer health insurance to their workers. In addition to pursuing pro-growth small business policies, it is important that we continue to provide the requisite support for the SBA to effectively undertake its mission of providing financial, entrepreneurial development, disaster and contracting support to small businesses.

Should you be confirmed you will be assuming leadership of the SBA during one of the agency's most challenging and important times in history. In particular you would be leading the agency at a time when Congress is undertaking efforts to reauthorize the SBA and during what is expected to be another busy hurricane season. During this critical time, the SBA will need a strong and effective advocate for small businesses who is committed to working with Congress to empower small businesses to create jobs and grow the economy.

I very much appreciate your interest in public service and look forward to hearing from you this morning.

Senator SNOWE. Senator Vitter.

OPENING STATEMENT OF THE HONORABLE DAVID VITTER, A UNITED STATES SENATOR FROM LOUISIANA

Senator VITTER. Thank you, Madam Chair. I will be very brief as well. Obviously coming from Louisiana, my primary concern with regard to this nomination to the SBA is disaster response. Mr. Preston and I had a very good meeting focused primarily on that and I was quite frankly very impressed by his ideas, what he said with regard to that, and with regard to management and reform of the Agency overall. I thank you, Mr. Preston, for really exhibiting a very real eagerness to have a very hands-on management approach—really personally get your hands around these management issues which have been so frustrating, particularly through Hurricanes Katrina and Rita. I very much look forward to working with you in that effort of really getting your hands around these management issues, both disaster response and all other aspects of making the SBA fully effective. Thank you, Madam Chair.

Senator SNOWE. Thank you very much, Senator. Now we welcome our colleague, Senator Durbin, who is here to introduce our nominee Steven Preston, and who is a resident of Hinsdale, Illinois. I welcome you, Senator Durbin, and any comments you care to make in introducing Mr. Preston.

STATEMENT OF THE HONORABLE RICHARD J. DURBIN, A UNITED STATES SENATOR FROM ILLINOIS

Senator DURBIN. Senator Kerry, Senator Coleman, Senator Vitter and Madam Chair, thank you for the opportunity to introduce Steve Preston to the Small Business Committee.

When a tornado struck in my hometown of Springfield, Illinois earlier this year, in fact, two tornados in about a 3-week period, I saw first hand how crucial it was that the Small Business Administration respond with disaster relief loans quickly and efficiently. Particularly as we approach another hurricane season, I am sure Senator Vitter can speak to this issue better than any of us, it is essential that the SBA remains ready and able to help on an emergency basis.

The SBA needs the best leadership to meet its goals of helping as many entrepreneurs as possible in my home State of Illinois and across the Nation, to help this country grow more jobs as quickly as possible. Second, to provide disaster loans to businesses and communities when they need them.

Thirty years ago, Madam Chairman, to confess my conflict of interest here, I applied for and received an SBA loan to open a little restaurant in Springfield, Illinois. It never made franchise status, but it survived for 5 years and it did because the SBA believed in us and gave us our chance. My story can be repeated thousands if not millions of times over across the United States.

Steve Preston comes before you today with the right experience to lead this critical Agency at this moment in history. He graduated from two great Illinois schools, first from Northwestern University and then an MBA from the University of Chicago. He has worked as an investment banker on Wall Street before returning to Illinois to become Executive Vice President of ServiceMaster,

based in Downers Grove outside of Chicago, one of the most respected corporations.

Steve has spent nearly his whole career bringing effective management to business operations, and we need his organizational expertise at the SBA now more than ever and your opening statements demonstrate that. We need an Administration, with Steve's leadership, that will help America's small business entrepreneurs to continue to create good jobs in our Nation.

Finally, let me say to Mr. Preston, what you have heard this morning from Chairman Snowe, as well as Ranking Member Kerry and others, makes it clear that this Committee and our commitment to small business are bipartisan, and we are dedicated to promoting ownership and entrepreneurship without a political agenda. I am confident this Committee will give you a fair hearing, I believe they will support your nomination and I hope that they will become a valuable partner as you do your important work at the SBA. Thank you, Madam Chair.

Senator SNOWE. Thank you very much, Senator Durbin, for your comments.

Rule 3 of our Committee requires that the witness during a confirmation hearing has to give testimony under oath, so would you please stand and raise your right hand.

[Witness sworn.]

Senator SNOWE. I would like to welcome you to the Committee, Mr. Preston, and would you care to introduce your family members who are here, I know your wife, Molly, is here. I understand you had a wedding anniversary on Monday; is that true?

Mr. PRESTON. That is true.

Senator SNOWE. See, no better way to spend your anniversary.

STATEMENT OF STEVEN C. PRESTON, NOMINEE TO BE ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. PRESTON. I would like to thank you, Chair Snowe, Ranking Member Kerry and the Members of the Committee on Small Business and Entrepreneurship for meeting with me today. I would also like to thank all of you who met with me or whose staff met with me. Those meetings were very beneficial to me in understanding your perspectives on how to increase the impact that the SBA has had on the constituencies it serves. I would also like to thank President Bush for nominating me to this position and the many legislators, trade organizations and individuals who have been kind enough to endorse my nomination. Finally, I would like to thank Senator Durbin for his kind introduction and his support.

Many of you have asked why I would like to be a candidate for this position. Very simply, I believe in the value of public service and would like the opportunity to serve in a capacity that is relevant, that I am passionate about, and that draws on the competencies I have developed over almost 25 years in financial and operational leadership positions.

It is easy to get excited about serving small businesses. Small businesses help drive our economy, transform communities, create jobs, and enable people to realize their dreams. It is through small business that we see innovation thrive and grow to become companies like the two that you mentioned, Senator Kerry, FedEx and

Callaway Golf who have received SBA support. Small businesses take risks that others just will not take, because they have a vison and because that every dollar that they put into that business will be matched with $10 of sweat equity.

Small businesses are often the first to venture into neighborhoods needing renewal or rebuilding. In recent conversations with a Member of this Committee, I recalled a striking example of that in New Orleans when I visited there this past spring and spent several hours touring the devastation down there. After leaving the Lower Ninth Ward and seeing almost no activity whatsoever for miles, we came upon one conspicuous anomaly—a small independent grocery store, freshly painted white, with sparkling windows and a bright sign out front. Several people were at work scrubbing the sidewalks in front, stocking the shelves and cleaning the floor, apparently in preparation for a re-opening. As I looked at the empty houses all along this lonely sight, I could not help but wonder who would come to shop, would the venture be successful, and how much of the owners' lives were invested in that store. During the same trip I was also fortunate to hear from several small business owners about the challenges they have in trying to claw their way back to viability and a number of them are relying on the SBA to help them in that process.

Some of you have wondered about my experience with small business. I have been in the middle of small business activity my entire professional life. I have worked with investors in the portfolio companies on strategic and operational issues. I have worked as investment banker with successful small businesses who are now big enough to tap the capital markets. I have worked with small business owners in a major franchise network to become more effective through training and funding and business support. In some ways, I think the most impactful experiences I have had have been in rolling up my sleeves to advise friends and family members on the issues that they face everyday as small business owners.

As a result, I have seen firsthand how small businesses evolve from an idea, to a fledgling operation, to a sustainable enterprise, to a growing force and I understand the type of support they need each step of the way. I have also witnessed what happens when a small business person with an idea and all the energy in the world to pursue it, lacks funding, lacks training, and lacks good advice and that is an opportunity lost for all of us.

I have listened to the stories of small business people who seek more affordable health care, who are confounded by a regulatory environment the disproportionately burdens small business, and who would sell goods and services to the Federal Government, but are so daunted by the difficulty and cost in becoming qualified to do so that they just give up. I know how important it is for them to have a strong advocate.

In addition to my commitment to small business, I believe my background is well suited to lead the SBA because it is deep in finance strategy and operational change, with experience investment banker, treasurer of a major financial and technology services organization, and later as the Chief Financial Officer and Leader of Operational Change at a company with about 40,000 employees,

multiple operating units and thousands of locations. I hope to bring relevant competencies to the SBA.

If I am confirmed, I will be taking on the leadership of a large organization with thousands of employees, millions of customers and billions of dollars in financial risk. The SBA is like a big business that serves the needs of small businesses and it is an organization that requires sophisticated financial management, operational responsiveness, and a customer service culture among the workforce. None of this happens by accident. It requires dogged focus to move the ball forward each and every day.

I also believe that to be an effective leader, one needs to paint a compelling vision and be a tenacious champion of the vision, willing to be outspoken and lead on principle. In addition, my leadership style promotes respect, openness, honesty, accountability, and collaboration. If I am confirmed, I plan to work hard to drive these operating principles into the organization and to be a visible advocate for the interests of small business.

Finally, and very importantly if I am confirmed, I look forward to having a close and open relationship with the Members of this Committee, with its' staff and to building and enduring relationship between the Agency and the Congress. This relationship, which I believe can be a collaboration, will be vitally important in realizing the opportunities before us.

So thank you once again Chair Snowe, Ranking Member Kerry and other Members of the Committee for your openness, for your honesty throughout the process, and I would welcome your questions at this time.

[The prepared statement of Mr. Preston follows:]

STATEMENT OF
STEVEN C. PRESTON
June 21, 2006

NOMINEE FOR
ADMINISTRATOR OF THE U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

I would like to thank Chair Snowe, Ranking Member Kerry and the members of the Senate Committee on Small Business and Entrepreneurship for meeting with me today. I would also like to thank all of you who met with me or whose staff met with me. Those meetings were very beneficial to me in understanding your perspectives on how to increase the impact that the SBA has on the constituencies that it serves. I would also like to thank President Bush for nominating me to this position and the many legislators, trade organizations and individuals who have been kind enough to endorse my nomination. Finally, I would like to thank Senator Durbin for his kind introduction and his support.

Many of you have asked why I would like to be a candidate for this position. Very simply, I believe in the value of public service and would like the opportunity to serve in a capacity that is relevant, that I am passionate about, and that draws on the competencies I have developed over almost 25 years in financial and operational leadership positions.

It is easy to get excited about serving the small business community. Small businesses help drive our economy, transform communities, create jobs, and enable people to realize their dreams. It is through small business that we see innovation thrive and grow to become the companies like FedEx and Calloway, both recipients of SBA support. Small businesses take risks that others just wouldn't take, because they believe in a vision and because they know that they will match every $1 of equity they put into the business with an equivalent $10 of sweat equity.

Small businesses are transformative and are often the first to venture into neighborhoods needing renewal or rebuilding. In recent discussions with a member of this Committee, I recalled a striking example of this phenomenon in New Orleans when I visited there this past spring and spent several hours touring the devastation. After leaving the Lower Ninth Ward and seeing virtually no activity for miles, we came upon one conspicuous anomaly—a small independent grocery store, freshly painted white, with sparkling windows, and a bright sign out front. Several people were at work scrubbing the sidewalks in front, stocking the shelves and cleaning the floor, apparently in preparation for an imminent reopening. As I looked at the empty houses all around this lonely sight, I couldn't help wonder who would come to shop, would this venture be successful, and how much of the owners' lives were tied up in making the store a success. During that same trip, I was also fortunate to have the opportunity to hear from several small business

owners in New Orleans who are doing everything they can to claw their way back to viability. A number of them are relying on the SBA to help them in the process.

Small businesses play a vital role in our society, and I have been in the middle of small business activity my entire professional life, rolling up my sleeves to advise friends and family members, working with investors and their portfolio companies on strategic and operational issues, helping franchisees become more effective through training, funding and business process support, and working as an investment banker with successful small businesses that have become large enough to tap the public and private capital markets.

As a result, I have seen first hand how small businesses evolve from an idea, to a fledgling operation, to a sustainable enterprise, to a growing force. I understand the type of support they need each step of the way. I have also witnessed what happens when that small business person with an idea and all the energy in the world to pursue it lacks funding, lacks training, and lacks good advice. It is an opportunity lost for all of us.

I have also listened to the stories of small business people who seek more affordable health care, who are confounded by a regulatory environment that disproportionately burdens small business, and who would like to sell goods and services to the federal government, but are daunted by the difficulty and cost in becoming qualified to do so.

I would like to tell you a bit about my leadership background, which I would describe as being heavy in the areas of finance, strategy and operational change management.

I spent the first half of my career in investment banking and treasury management, where I advised companies on strategic issues, worked with them to gain access to capital, designed complex financial risk management strategies, evaluated investments and dealt with credit issues.

Later I held senior leadership positions in a company with approximately 40,000 employees, multiple operating units and thousands of locations. I served as the company's Chief Financial Officer during periods of expansion, restructuring, and significant changes in the regulatory environment. I also led the company's Strategic Services effort which included Six Sigma reengineering activities, enterprise information technology, supply chain management and strategy. One of our primary objectives in this effort was to work closely with our business units to design processes and technologies to improve our service to our customers and to provide tools to our employees, to improve both the quality of their work lives and their ability to serve customers effectively.

If I am confirmed, I will be taking on the leadership of a large organization with thousands of employees, millions of customers and billions of dollars in financial risk. The SBA is like a big business that serves the needs of small businesses. It is an organization that requires sophisticated financial management, operational responsiveness, and a customer service culture among the workforce. None of this

happens by accident. It requires dogged focus to move the ball forward each and every day.

It is my hope that my background in all aspects of leading a major enterprise, and especially in driving process improvement, managing complex financial issues and leading organizational change will enable me and the team at the SBA to continue to build on the work that the SBA has already accomplished to move this organization forward.

In addition, my leadership style promotes respect, openness, honesty, accountability, and collaboration. I also believe that to be effective, a leader needs to paint a compelling vision and be a tenacious champion of that vision, willing to be outspoken and lead on principle. If I am confirmed, I plan to work hard to drive these operating principles into the organization and to be a visible advocate for the interests of small business.

Finally, if I am confirmed, I look forward to having a close and open relationship with the members of this Committee and its staff and to building an enduring relationship between the Agency and those in Congress who have oversight responsibility for the SBA. This relationship, which I believe can be a collaboration, will be vitally important in realizing the opportunities before us.

Thank you once again Chair Snowe, Ranking Member Kerry and other members of the Committee for openness and your insight into the opportunities which lie ahead for the SBA.

SENATOR GEORGE ALLEN
Questions of Steve Preston Submitted on Behalf of Constituents

Question Regarding Participating Security Leverage Escrow Accounts

As the Committee looks for ways to revive or restructure the Participating Security program, I am also very concerned about those existing Participating Security funds that are soon to be cut off from any new leverage, leverage upon which their SBA-approved business plans depended on for successful investment operations. It was also leverage that the SBA implicitly promised private investors in those funds would be available to support their commitments – and leverage needed to support the portfolio companies in which the funds had made initial investments. The simple fact is: we had better find a way to wind down the Participating Security program in a way that is fair to all stake holders that rely on those SBICs involved.

Do you agree that we must find a way to wind down the existing Participating Security program in a manner that is fair and reasonable with respect to all stakeholders?

Response: The wind down of the existing participating securities program is complex in that there are continuing obligations to SBIC participants, as well as estimated losses of approximately $2.4 billion on approximately $10 billion of outstanding investments. Unfunded commitments outstanding to the existing participants in the programs exceed $3 billion. Clearly, the Federal Government must meet its legal obligations. At the same time, it is critical that the SBA oversee the program in a way that protects the interests of American taxpayers.

Question Regarding the Small Business Innovation Research Program

Mr. Preston, one issue I hear about from the biotechnology and medical device industries in my state relates to the Small Business Innovation Research Program, or SBIR. Under the SBIR program, grants are provided to small companies by various government agencies, such as the National Institutes of Health. These grants have been a critical element in helping to grow America's biotech and medical device industries. Yet these grants are now threatened by a ruling by SBA's Office of Hearings and Appeals handed down in 2003. For the first time in the 21-year history of the SBIR program, it was decided that a small company with majority venture capital funding did not qualify for SBIR funding. This precedent has had an incredibly negative impact on biotech and medical device companies in my home state of Virginia and across the country, given that many small companies in these fields sustain their research through venture capital funds.

NIH Director Dr. Elias Zerhouni, numerous patient groups, and the biotech and medical device industries have been very vocal in their desire to see this problem fixed as soon as possible. Resolving this issue to allow small, majority venture-backed biotech and device companies is very important to me. What steps do you foresee the SBA taking to ensure that small companies that happen to receive a

majority of their funding from venture capital are once again eligible to receive SBIR grants? How can we resolve this very important issue?

Response: I understand that this issue is under consideration in the SBA and that a number of members of the Senate Committee for Small Business and Entrepreneurship are interested in expressing views on it. If I am confirmed, I would look forward to learning more about the views of the various members of the Committee and would welcome your feedback in the process.

The Nomination of Steven C. Preston to be Administrator of the Small Business Administration

Question for the Record submitted by Senator John Cornyn

Mr. Preston, one issue I hear about from the biotechnology and medical device industries in my state relates to the Small Business Innovation Research Program, or SBIR. As you know, under the SBIR program, grants are provided to small companies by various government agencies, such as the National Institutes of Health. These grants have been a critical element in helping to grow America's biotech and medical device industries. These grants are now threatened by an SBA ruling issued in 2003. For the first time in the 21-year history of the SBIR program, it was decided that a small company with majority venture capital funding did not qualify for SBIR funding. This precedent has had a negative impact on biotech and medical device companies in Texas and across the country, given that many small companies in these fields sustain their research through venture capital funds.

NIH Director Dr. Elias Zerhouni, numerous patient groups, and the biotech and medical device industries have been very vocal in their desire to see this problem fixed as soon as possible. Resolving this issue to allow small, majority venture-backed biotech and device companies is very important to me. What steps do you foresee the SBA taking to ensure that small companies that happen to receive a majority of their funding from venture capital are once again eligible to receive SBIR grants? How can we resolve this very important issue?

Response: Please see the response to question #2 above, as Senator Cornyn's question was the same as the question submitted on behalf of a constituent of Senator Allen.

Question for the Record for
Senator Mary L. Landrieu
For Small Business Committee Hearing on
The Nomination of Steven C. Preston to be Administrator
Of the U.S. Small Business Administration

Question #1 – Gulf Coast Recovery

Before Katrina and Rita hit, there were more than 95,000 small businesses in Louisiana, employing about 850,000 people – more than half of my state's workforce. More than 81,000 of these businesses sustained damage in Katrina and 39,000 have yet resumed operations. In the aftermath of Katrina, we need a strong SBA more than ever.

- Please share with the Committee your thoughts and ideas fro the future role of the SBA in the recovery of the Gulf Coast. What will be the first steps you will take in this area when you are confirmed?

- If confirmed, when do you hope to visit the Gulf Coast and Louisiana to talk to SBA District Office staff and businesses about their experiences with the SBA and their long-term needs?

Response: If I am confirmed, I would look forward to visiting the Gulf Coast region again very soon, and to meeting with the local SBA District Office, local Disaster staff and businesses in the area to understand how the SBA can be more effective in serving the needs of this community. I would like to understand how the SBA can contribute both uniquely and in partnership with other entities in the area. It will also be important to continue the SBA engagement with other governmental organizations, such as the Office of The Federal Coordinator for Gulf Coast Rebuilding out of DHS, trade associations, state and local governments and the Congress to understand the solutions under consideration and the role the SBA can play. The Gulf Coast situation is different from anything we have ever seen. It has proven that the SBA must find better ways to utilize all the resources available to the agency. The magnitude of the devastation and the unusual complexities in assisting the rebuild, e.g. longer-term population trends, insurance issues, etc., will demand creative solutions and collaboration.

Questions #2 – SBA Preparedness for Future Disasters

I was very critical of the SBA's response to Katrina. The agency did not have enough loss verifiers on the ground, application processing was slow, and the Disaster Loan Program nearly ran out of money in February 2006.

I have major concerns that the SBA was not prepared for Katrina and was not fully prepared for this hurricane season. As you may know, I was able to include report language in the recent Emergency Supplemental to require a status report, by July 15th, on the SBA's comprehensive disaster response plan for the 2006 hurricane season. I look forward to this report and want to work with the SBA to ensure that problems that occurred post-Katrina do not happen for future disasters.

- What changes do you think are needed at the Office of Disaster Assistance in order to get it ready for any future major disasters like Katrina?

Response: Katrina changed our understanding of what is possible. The SBA must be ready and have a clear plan in place to handle disasters of all magnitudes. Doing so will require a well-designed surge plan with protocols that contemplate even very large disasters and that are appropriately responsive to them. In preparing such a plan, the Agency must be open-minded and consider how to leverage the entire SBA network, our partner network, other governmental networks (especially state and local), and the private sector. This plan must set in place expectations not only for the SBA's ability to handle process volume, but should also contemplate other problems that could occur for small businesses and the role the SBA could play in addressing them. The entire loan-making process is complex and has multiple steps where breakdowns, backlogs or holdups can result in a broad scale delay of the overall effort. As a result, the solutions need to appreciate this complexity. This issue will require my deep attention.

Question #3 – Full-time Planning Staff

I understand that the Office of Disaster Assistance center management and headquarter program personnel have planning responsibilities but there is no full-time planner on staff to prepare for this hurricane season and other disasters. If the SBA puts into place a comprehensive disaster response plan, it must be a scalable and ever-changing plan that takes into account not just experience and performance from previous disasters but also future disasters that can and will occur. A full-time planner is essential to the flexibility of this plan.

- Do you support appointing a full-time disaster emergency planning staff at SBA?

Response: The SBA requires a staffing structure that is fully responsive to disaster situations. Clearly the planning process and having an appropriate staffing plan in place is foundational to this effort. If I am confirmed, I plan to undertake an assessment of the disaster staffing plan as part of the entire disaster review.

Question #4 – Bridge Loans and Grants

For the upcoming SBA Reauthorization, I intend to offer legislation giving the SBA more tools for future disasters. This legislation will include expedited disaster loan authority for businesses in good standing with the SBA as well as authorize short-term bridge loan and grant authority, so that in a major disaster, businesses can obtain intermediate financing to stay afloat.

Following Katrina in 2005, the SBA and the Office of Management and Budget opposed a provision in bipartisan legislation in the Senate Small Business Committee to provide additional funds for Gulf Coast states to provide additional funds for Gulf Coast states to provide emergency bridge loans and grants to businesses. This is despite figures that state-administered bridge loan programs in the Gulf Coast literally saved hundreds, if not thousands of small businesses from running out of business while they awaited SBA disaster loans or insurance pay outs.

The SBA has told me that they are not in the business of short-term recovery, that they are more focused on long term business recovery. However, studies show that 43 percent of businesses that close following a natural disaster never reopen and an additional 29 percent of businesses close down permanently within 2 years of a natural disaster. It is essential to the long term recovery of an impacted community that these businesses have some intermediate financing and technical assistance or they will disappear. As the only Federal agency providing non-agricultural disaster assistance, I would like to see the SBA take more of an active role in providing intermediate financing, either by providing bridge loans/grants or by guaranteeing these state-administered bridge loans.

- Would you support giving SBA the authority to provide short-term bridge loans or grants to businesses in the wake of major disasters?

Response: When Americans are in the midst of trying to rebuild their lives or simply survive through a critical period following a disaster, they need to be confident that they will receive funding in way that is timely and responsive to their needs. In understanding how the SBA can best serve these needs, we need to understand our role relative to other providers of capital, understand why funding is not getting to people quickly enough, and prepare creative solutions to address their needs. This issue requires our best thinking and I look forward to committing myself to a solution.

Question #5 – District Offices

SBA District Offices work with businesses, lenders, and state/local officials on a daily basis so they know their communities very well. I am very familiar with the work of the New Orleans SBA District Office, but was surprised to learn that the Office of Disaster Assistance and these District Offices operate separately. Following a disaster certainly the Office of Disaster Assistance personnel should be leading agency efforts on the ground, but the District Offices in affected communities should have greater authority to assist businesses that they work with and know.

- As SBA Administrator, will you consider finding ways to better coordinate the Office of Disaster Assistance personnel and district office staff?

- Can district offices play a role in approving loans for businesses that have good records with them?

Response: The entire SBA needs to work together to ensure that disaster customers are being served effectively, irrespective of where in the SBA the service comes from. The SBA has a number of direct touch points with customers including field offices and partner networks. As the agency works to improve its responsiveness, it is important to think creatively about how best to deliver its services in each situation and how do leverage its network in doing so. While it is unclear to me whether they should be playing a role specifically in the loan approval process, district offices must play a critical role in the areas where they can be most effective, especially those requiring a direct touch with the customer.

Question #6 – SBA Disaster Loan Mishandling

During the May 5th 'Back to Business' roundtable that I held with Senator Kerry in New Orleans, I heard many complaints from businesses about SBA loan processing problems including: SBA staff losing application materials; lengthy waiting periods for loan approvals. In one case, applicants were told one piece of information by SBA Disaster Recovery Center staff, then being told contradictory information from loan processing staff. As this was an unprecedented disaster, I understand that some of these problems can be attributed to honest mistakes by staff that are dealing with massive amounts of applications. However, many of these issues might also result from poor training or management of disaster loan staff.

- What steps will you take to prevent these kinds of problems from occurring in the future?

Response: I appreciate, as the Senator acknowledged, that some level of mistakes were understandable, given the unprecedented scale of the Gulf Coast disaster, and the resulting loan volumes. And in fact, no process is ever entirely free of mistakes. Nonetheless, there are ways to minimize the number of mistakes and improve the level of customer service, even in very high-volume situations. Doing so requires clear business rules on how information is handled, how each step in the process is managed and who is responsible for customer at each step. Highly disciplined process management is critical in a process like disaster lending, because there are so many discrete steps in the process and so many opportunities for the weakest link in this multi-linked chain to break. In addition, there need to be information systems which can accommodate the volume and provide consistent information to the customers throughout the service process. I look forward to understanding how this process can be managed more effectively at all levels of volume.

Senator John F. Kerry
Nomination of Steven Preston
Additional Questions for the Record
June 23, 2006

Definition of a Small Business
During your meeting with staff, you were asked for your view of "what is a small business." This is an important issue for the small business community and for policy makers as we consider changes to existing programs. In particular, there are currently efforts to redefine what is a small business with regard to venture capital funding, and there is language in the House reauthorization bill to redefine when a franchise is considered a small business. The Administrator approves all changes to small business size standards.

1. Have you had more time to think about this issue? How will you approach this issue as Administrator?

Response: The SBA has numerous programs where the definition of small business becomes relevant and where it can vary, e.g. 7(a) loan eligibility, small business qualification for government contracting, SBIR grants, franchise status, advocacy. In each circumstance, we need to ask ourselves who we are attempting to serve are and what standards will best achieve the targeted outcomes. In cases where the SBA approves changes in small business size standards, it is incumbent upon the agency and the Administrator to seek counsel from stakeholders in the small business community and to establish standards that are consistent with the objectives of the programs that are affected.

SBA Programs and Priorities
You have said that reforming the disaster loan program is one of your priorities but in meetings with staff you have been vague about other possible programmatic priorities. You have had since your April 25 nomination to analyze SBA programs, and you have spent more than twenty years working in finance and business.

1. In the time you have spent preparing for this position, what programs have you identified as your priorities?
2. Beyond the disaster loan program and SBICs – which I understand you have some familiarity with – what are other programs which will get your attention?

Response: Based on the advice of many Committee members and the urgent needs of Americans, it is clear that continuing the work of shoring up the disaster lending process must be a priority. More broadly, I am focused on understanding how well the existing SBA's programs are currently performing in meeting the market gaps they are intended to address as a gauge to understanding where the greatest attention is required. Is the SBA effective through its direct and partner networks reaching the market it intends to serve? Once people come through the door, are we easy to do business with? And once they are working with us, are we effective in advancing the targeted outcomes? Clearly, two areas of significant attention in this regard will be in government contracting and capital access. Finally, I am personally interested in understanding how the SBA can leverage its capabilities to address the needs of low and moderate income areas as well as areas in need of longer-term rejuvenation (such as the Gulf Coast), and I am particularly interested in considering how this objective can be accomplished through public/private partnerships, such as The Urban Entrepreneurship Program (UEP).

Contracting

One of the most egregious failures of the SBA under this Administration has been its failure to ensure that federal agencies are meeting their small business contracting goals. The SBA is supposed to serve as the watchdog for small business contracting across the federal government but all we have seen in this area are budget cuts, reduced oversight, and tough IG reports reinforcing the need for more staffing – such as Procurement Center Representatives – to ensure that small businesses are getting their fair share. Reports such as last year's IG report indicating that many so-called small business contracts went to large firms are cause for concern.

1. What will you do to ensure that federal agencies are doing everything possible to meet small business contracting goals?
2. Do you plan to implement the recommendations from the SBA's own Inspector General to stop fraud and abuse in small business contracting?

Response: I was encouraged to learn that the SBA recently announced that the 2005 small business prime awards exceeded 25%, higher than the 23% statutory goal for the third straight year. Nonetheless, the 23% goal should be considered a floor, not a ceiling. As such, I will work to understand where there are inadequacies in the operation of the Agency's government contracting operations and bring sensible operational solutions to address them. I also expect to foster an open and collaborative relationship with the IG's office and partner with that organization to elevate the operational effectiveness of the SBA. If there is fraud and abuse in small business contracting, it is intolerable, and I would work with the IG to put measures in place to stop it.

Contracting Goals for Veterans and Women

The Administration has established federal procurement goals of 3 percent for service disabled veterans and 5 percent for women owned businesses. Year after year, the Administration fails to come close to meeting these statutory goals. In

addition, the SBA has recently closed its Veterans Small Business Contracting Office.

1. If confirmed, what will you do to ensure that the established goals for these underserved communities are met?

It is critical for us all to understand the root cause for this issue, before we can work toward achieving these targets. In seeking that understanding, if confirmed, I would expect to meet with stakeholders in the women and veterans business communities as well as with members of Congress and with SBA leadership. There could be any number of causes and we need to understand them before we can devise solutions.

Tax Policy

I am concerned that often the Administration's tax policies are touted for helping small businesses and in reality they only help very few small businesses. For example, it is argued that the estate tax needs to be repealed to help small businesses. In 2009, the estate tax is scheduled to have an exemption of $3.5 million and only .03 pe4rcent of estates would be impacted by the estate tax. According to the Congressional Budget Office (CBO), with an exemption level of $3.5 million fewer than 100 family-owned businesses and only 65 farm estates will owe any estate tax at all and a majority of these estates would have sufficient assets to pay the tax. The repeal legislation will change the treatment of the basis of inherited assets. This change would have been harmful to small businesses.

In your role as SBA Administrator will you be advocating a tax policy that helps a few wealthy small businesses rather than the majority of small businesses?

Response: If confirmed, I will work to advocate tax and other policies that benefit the small business community overall, as well as subsets of this community.

Disaster Loans

The SBA is proposing to save $41 million in FY07 by imposing a higher interest rate on disaster victims receiving federal disaster loans.

1. Given your stated position on the need for the SBA to more effectively respond to the needs of disaster victims, what is your opinion of this policy proposal?

Response: I will support a policy that keeps disaster assistance available to those in need while also being accountable to the American taxpayer to manage the costs associated with this and other programs.

In the wake of the 2005 Golf Coast hurricanes, the SBA was woefully unprepared to handle the volume of loan applications. Five months after the storms, nearly 178,000 loan applications, or 48 percent of the total volume, remained unprocessed by the SBA.

2. What is your understanding of this breakdown, and of what the SBA is doing to address it? Do you have ideas for how this process can be improved?

Response: I have had conversations with people at the SBA, recipients of disaster loans, and members of the Committee regarding the SBA's performance, but have not had access to nonpublic information relating to the performance of the disaster lending operation. My understanding is that the existing planning and systems were not sufficient to handle an unprecedented disaster on the scale of what happened on the Gulf Coast, which resulted in very long processing times for disaster loans.

As I have noted in my response to a similar question from Senator Landrieu, highly disciplined process management is critical in a process like disaster lending, because there are so many discrete steps in the process and so many opportunities for the weakest link in this multi-linked chain to break. Doing so requires clear business rules on how information is handled, how each step in the process is managed and who is responsible for customer at each step. In addition, there need to be information systems which can accommodate the volume and provide consistent information to the customers throughout the service process

In a response to a different question from Senator Landrieu, I noted that Katrina changed our understanding of what is possible. The SBA must be ready and have a clear plan in place to handle disasters of all magnitudes. Doing so will require a well-designed surge plan with protocols that contemplate even very large disasters and that are appropriately responsive to them. In preparing such a plan, the Agency must be open-minded and consider how to leverage the entire SBA partner network, other governmental networks (especially state and local), and the private sector. This plan must set in place expectations not only for the SBA's ability to handle process volume, but should also contemplate other problems that could occur for small businesses and the role the SBA could play in addressing them. The entire loan-making process is complex and has multiple steps where breakdowns, backlogs or holdups can result in a broad scale delay of the overall effort. As a result, the solutions need to appreciate this complexity.

In February of this year, the disaster loan program nearly ran out of funding twice. In meetings with SBA staff during that month, the SBA failed to notify my staff that it was in need of supplemental funding.

3. As administrator, will you commit to participating in an open dialogue with Committee staff regarding the status of the disaster loan program, including all requests for supplemental or reprogrammed funding?
4. Will you commit to sending monthly reports on the program's funding status, and daily reports on loan volume during declared disasters?

Response: As I have emphasized in both private meetings and in my testimony, I look forward to a collaborative dialog with the Committee on the disaster loan issues as well as other issues that the Agency faces. I am unfamiliar with the current information reporting capabilities of the SBA's systems and what is practicable at this time. I do look forward to maintaining consistent communication with the Congress and I will work to be responsive to the Committee's need to fulfill its oversight responsibility for the SBA.

In a bill I introduced recently to reauthorize and improve the disaster loan program (S.3487), there are a number of proposals that would improve the way the Administration responds to the needs of disaster victims. These include increased coordination between FEMA and the SBA, increased communication and disclosure between the SBA and Congress, a new presidential declaration of disaster to allow for nationwide economic injury disaster loans, a national bridge loan model for getting capital in the hands of victims quickly, extended 7(a) and 504 loans with reduced fees for disaster victims, and authorization for the Administrator to contract with private sector entities to efficiently process disaster loans. Many of these ideas were presented previously in response to the Gulf Coast hurricanes in a bipartisan fashion, and were rejected by your predecessor.

5. As Administrator, will you work with Congress to enact the proposals that both the majority and the minority members of the Committee view as being crucial to responding adequately to large scale disasters?

Response: If confirmed, it will be my priority to ensure that the SBA is responsive to the needs of Americans suffering from the devastation brought upon by disasters. I plan to be fully engaged in a bipartisan effort with the Administration, Congress, and other stakeholders to craft the best solutions to address these needs and to implement them effectively. I also expect that much creative thinking has already occurred in considering how best to address major disasters, and I look forward to understanding these well-considered opinions.

Office of Advocacy

The SBA Office of Advocacy no longer has a separate line item in the SBA budget. By allowing for the Office of Advocacy to be funded at the discretion of the Administrator, the Administration is violating the spirit of the Small Business Act and is undermining the intent of Congress to have the Office of Advocacy be independent.

1. What will you do as Administrator to remedy this perceived conflict of interest?
2. Will you permit the Office of Advocacy to operate independently from the SBA and its message in its analysis of the effectiveness of small business programs at all federal agencies, including programs at the SBA?

Response: Office of Advocacy mandate is to protect, strengthen and effectively represent the nation's small businesses within the federal government's legislative and rule-making processes. The Office of Advocacy works to reduce the burdens that federal policies impose on small firms and maximize the benefits small businesses receive from the government. Advocacy's mission, simply stated, is to encourage policies that support the development and growth of American small business. While I understand and respect the need for independence, I believe this mandate and mission is fully consistent with the goals of the SBA, and I look forward to close collaboration with the Office of Advocacy in fulfilling my role as a champion for small business. In addition, I believe information that the Office of Advocacy produces that helps us understand the value of SBA programs is valuable and should be considered carefully.

SBA Loan Programs
7(a) Loan program – This Administration has been steadfast in its refusal to subsidize the flagship 7(a) loan program, choosing instead to pass along the cost of running the program to lenders and those businesses receiving loans.

1. Doesn't it seem to make sense that the federal government should invest in a program with such an obvious return on investment?
2. Would you support funding the loan-guarantee program through appropriations?

Response: I believe that the 7(a) program serves a very valuable role as a gap lender to small businesses who may not have access to traditional sources of capital and who create social and economic value to our country. While every penny counts to a small business who is trying to succeed, I think it is important to understand all the factors that relate to the effectiveness of the 7(a) program to determine how best to achieve the program's objectives, and how the SBA could improve the program's effectiveness. I also understand that the Administration believes that the zero subsidy cost initiative has brought stability to the program, and that it has enabled lending to grow and not be interrupted by funding lapses due to unexpected shortfalls in appropriations.

Business Loan Program Fees – This Committee is on record as opposing that portion of the Administration's FY 2007 budget submission calling for fees to be imposed on the 7(a) loan program, the 504 loan program, and the SBIC program and for the income from those fees to fund salaries and expense. The House version of the Commerce, Justice, State appropriations bill contains the following language "Provided, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan program activities, including fees authorized by section 5(b) of the Small Business Act:..." I understand this language is in the appropriations bill at the request of the administration.

3. What is your position on this broad legislative language which gives the administration broad discretion in charging these fees on any portion of the business loan programs? More generally, what are your thoughts on increasing fees on small business lending?

Response: It is my understanding that the language in question refers to existing fee authority and authorizing language would be required to expand fees to include administrative costs. As I mentioned above, every penny counts to a small business who is trying to succeed. As such, I intend to listen closely to the views of the members of the Committee in understanding this issue more fully, understand if the effects of higher fees on targeted outcomes can be projected, and work hard to balance the desire for fiscal responsibility with an understanding of the repercussions.

Microloan Program – For the third year in a row, the Administration proposes to terminate the SBA's Microloan and Microloan Technical Assistance programs. The President's budget submission states: "SBA believes that this program has been excessively expensive relative to other programs. The 7(a) program is capable of serving a similar clientele through the Community Express program at a much lower cost to taxpayers." I have asked the SBA to provide evidence that microloan borrowers are being served through the Community Express program. The SBA responded with the number and average size of loans in the Community Express program. However, they could not give us the average credit score for each borrower. In addition, when I asked about their failure to conduct national training sessions for the Microloan intermediaries, the SBA responded that, due to the uncertainty of the program and competing budget priorities, thee sessions are non urgent.

4. If confirmed, do you commit to gathering this credit score information to accurately examine whether or not microloan borrowers can be served through the Community Express program before proposing to eliminate the Microloan program in budget requests?
5. From your experience in training and providing guidance to small businesses, do you agree that educating and training microloan intermediaries is not urgent?
6. How would you ensure as Administrator that our Microloan program continues to be successful with an almost nonexistent default rate if there is no training provided?
7. Will you support the Microloan Program, and increased funding for loans to intermediaries and grants to intermediaries for technical assistance to micro borrowers?

Response: As I commented in my confirmation hearing, micro-lending addresses a tier of businesses that are vital to our economy. In any decisions relating to programmatic changes, I believe it is important to understand who will be affected by the change and whether the change is warranted. I also believe that we have to be bold enough to make programmatic changes if programs are not providing an adequate return on the investment being made in them. In the case of the Microloan program, I look forward to understanding the role of the SBA in serving this important community and how it does so through its many programs. I do believe well-conceived training is very valuable to small businesses and that it can improve their chances of survival.

New Markets Venture Capital Program (NMVC) – The NMVC program is set to expire this year and is important to the scope of financing that the SBA offers small businesses. For the sixth year in a row, the President seeks no funding for the NMVC program. This program was part of a broad bipartisan initiative agreed to by Speaker Hastert and then-President Bill Clinton to stimulate investment in low-income urban and rural communities. The other elements of that agreement included in the Community Renewal Tax Relief Act were New Markets Tax Credits, additional empowerment zones, and a new program – Community Renewal Zones.

The goal of the legislation was to test a number of different approaches to poverty alleviation to better understand what works the best. With the exception of the NMVC program, all of the other programs are going forward. The NMVC program should also be given a fair chance to demonstrate its potential for success.

8. As Administrator, do you commit to look at the work of those six groups to evaluate the effectiveness of the program? Given your understanding of venture capital, what are your views on how to make venture capital available to communities which don't traditionally receive venture capital?

Response: I am interested in investigating how the SBA can assist in low and moderate income areas through all of its programs. The venture capital community should be willing to invest in good ideas wherever they are, and we need to consider how to help get good ideas into these areas, which may be assisted through targeted training programs and public/private partnerships such as the UEP. I would also look forward to looking at the workings of the program as well as possible mechanisms for encouraging investment in other low and moderate income areas.

Public-Private Partnership – SBA programs require a strong public-private partnership to be successful. However, the cost of the programs has put a tremendous strain on borrowers and lenders who choose to participate in these programs. Many smaller and community banks n o longer offer SBA guaranteed loans.

9. If confirmed, how do you plan on strengthening this partnership and attracting private lenders to an environment of increasing fees?

Response: Ultimately, the SBA must serve its constituents in a way that is responsive to their needs and responsible to taxpayers. If nonparticipation from smaller and community banks in SBA programs results in small businesses not being able to benefit from its programs, it will be critical for me to get to the heart of the issue and address it.

504 Loan Program – An estimated 250 Certified Development Companies play a key role in providing 504 loans to help promote economic development throughout the country in diverse communities. In testimony to the Committee, the National Association of Development Companies stated that their 250 members provided more than 99 percent of all SBA 504 financing to small business in 2005, stimulating the investment of $12 billion in projects and created and retained over 145,000 jobs. These amazing statistics demonstrate the tremendous reach of the 504 loan program, especially as CDCs expand into multistate operations.

10. What are your views on the SBA 504 Loan Program and the role of Certified Development Companies? Do you see Certified Development Companies as Local Economic Development Agencies with mandates to improve the economics of their regions?

Response: The 504 loan program plays a valuable role in providing long-term capital for asset financing, and therefore in providing capital for growth many enterprises. I have not had sufficient access to information relating to the Certified Development Companies to evaluate their effectiveness, but would look forward to doing so if I am confirmed.

Women's Business Centers

In his response to the Committee's questions regarding the SBA's FY 2007 budget, Administrator Barreto stated that the SBA is "moving to performance-based funding" for Women's Business Centers.

1. Will you continue to support this strategy?
2. Do you believe that performance-based funding should be extended to the long-term funding strategy for the Women's Business Centers program?

Response: I believe that any time the federal government provides funding for an initiative, it should do so with an understanding of the intended value to be created by that initiative. Performance measurement can be used to determine whether the intended outcomes are being achieved. To the extent that metrics can be developed that provide insight into the achievement of that value, I have found them very valuable in assessing initiatives and in working to improve them. This type of information, if well conceived, can have great value. I am unfamiliar with the details behind Administrator Barreto's statement and with the metrics planned to make this evaluation. I would note that it may be challenging to design metrics and gather hard data to support this work, and as a result, the reliability of this information must be taken into consideration when making decisions based on it.

While the Women's Business Centers program, like other SBA programs is starved of funding, it faces an additional problem. After 10 years, following the expiration of their 5 years initial grants and 5 year sustainability grants, Women's Business Centers are cut off from federal funding.

1. Given the SBA has indicated a desire to eliminate the sustainability program, how do you plan to ensure that successful Women's Business Centers are able to continue providing assistance to entrepreneurs across the country once their initial SBA grants have expired?
2. Will you support the Administration's position that the Women's Business Centers program should only provide seed money to SBCs, thus preferring to fund new WBCs at the expense of the experienced, successful ones?
3. Will you support efforts to modify the Women's Business Centers program to become a renewable grant program, so that successful centers are able to continue to apply for funding?

Response: There appear to be two potential paths relating to this issue, assuming level funding over time: (1) use funding as multi-year start-up capital to seed new WBCs and expand the network and the impact of the program over time (requiring WBCs to find other sources of support over time); (2) use funding in part for longer-

term support of WBCs, with less expansion of the network but greater certainty that existing WBCs will survive. In determining the best route to take, we need to consider the ability of WBCs to obtain funding from other sources, the value that those centers create, and the potential value of starting additional centers. I would be surprised to find a one-size-fits-all solution to the issue, because access to alternative funding, the value produced by each center, and the need for new centers is likely to vary by location. I would like to understand how the SBA can work with existing WBCs to assist them in gaining alternative funding. If I am confirmed, I will work to understand how these issues bear upon the direction of the program and what that implies for a structure that optimizes the outcomes of the program.

Veterans

The SBA recently closed the Office of Federal Contract Assistance for Veteran Business Owners. In his response to the Committee's questions regarding the SBA's FY 2007 budget request, Administrator Barreto stated that, the "SBA has recently instituted changes to better serve the veteran community."

1. Do you believe that closing the Office of Federal Contract Assistance for Veteran Business Owners allows the SBA to better service the veteran community?
2. Should you be confirmed, will you support reopening the Office?

Response: As I stated in my confirmation hearing, we all owe a tremendous debt of gratitude to the veterans who serve our country, and the SBA needs to ensure that it is working to serve them effectively. While I do not have any preconceptions regarding the best organizational structure to achieve this, if I am confirmed, I would look forward to spending time with our veterans to ensure that I understand their concerns and objectives.

Small Business Development Centers

You have testified that you will fight to ensure the delivery of the service of SBA as effectively and as fully as possible. My colleagues and I have noted many times that the Administration's budget cuts to the SBA are, in fact, affecting the delivery of the SBA's services. For example, the SBDCs saw a decline in the number of clients counseled from FY 2004 to FY 2005.

1. How do you plan to address this decline?
2. Given that the SBDCs have not seen an increase in funding since 2001, would you support increasing their funding to ensure that centers have enough staff to meet the demand of their services?

Response: My understanding based on information released in the FY2005 Performance and Accountability Report and on discussions with SBA management is that the decline you noted in your question reflects a change in the methodology for counting the number of clients to provide a more accurate assessment of the value created by the program. If I am confirmed, I expect to meet with SBDCs, their representatives, other related stakeholder and the leadership of SBA to understand

how best to achieve the overall objectives of the SBA and to partner with the SBDCs in doing so. It has come to my attention that the SBA has multiple touch points with its constituency through various physical and virtual networks. We need to ensure that we are leveraging all the resources available to us to serve the needs of the customer efficiently and effectively.

06/13/2006 TUE 8:09 FAX 6307829675 VVV Corporation 001/001

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June 12, 2006

Senator Olympia Snowe
Chair, Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington D.C. 20510-6350

Dear Senator Snowe,

My name is Steven VanDenBerg, and I am the president and CEO of VVV Corporation, the largest operator of ServiceMaster Clean franchised businesses in the United States. I am writing to you today to strongly endorse the confirmation of Steve Preston for the position of head of the SBA.

I became a ServiceMaster franchise owner in 1990. Over the past 16 years we have grown from 7 employee $400,000 revenue sole proprietorship to a 145 person company with annual revenues exceeding $22 million today. The ServiceMaster Company and its senior leadership team have been great partners throughout this time of growth.

Over the past year I have come to work closely with Steve Preston as he has served on the ServiceMaster senior leadership team. We have worked together on a number of issues affecting my business including market position, identity, and execution strategies. Steve has demonstrated a detailed grasp of the challenges and triumphs that come with owning and operating a small business. I have witnessed his stewardship of the resources of The ServiceMaster Company and his commitment to my business and its continued development. If these experiences are any indication of the stewardship he will exercise on behalf of the SBA, I am fully confident he will serve the agency well.

Again, I strongly endorse the confirmation of Steve Preston. I am confident the agency will thrive under his leadership.

Sincerely,

Steve VanDenBerg
President/CEO
VVV Corporation

A Quality Restoration Vendor

DATE: June 12, 2006

TO:	Senator Olympia Snowe, United States Senate Committee on Small Business & Entrepreneurship, Washington D.C. 20510-6350	**RECEIVING FAX NO:**	202-224-4885
		RECEIVING PHONE:	202-224-5344
FROM:	Steven Arcieri	**SENDING PHONE NO:**	212-286-1700

NUMBER OF PAGES (including cover):

RE: Steven Preston/Candidate for Administrator of The Small Business Administration

Dear Senator Snowe:

As a small business owner in the heart of New York City and a longtime friend of Steven Preston, I would like to strongly recommend him for the position of Administrator of the Small Business Administration.

I have known Steve as a good friend for over 15 years and have seen many facets of his exceptional and far- reaching skills as well as his strong character. I am hoping this letter might encourage you to realize the positive impact that would result from setting Steve Preston loose on behalf of small business owners throughout the United States.

Early on in our friendship I knew that Steve was extraordinary. He was working around the clock as an investment banker but still managed to make time every Saturday morning to head up a volunteer team for *Operation Exodus*, an organization committed to helping underprivileged at-risk youth in the Washington Heights section of New York City. Steve was a leader in the tutoring program for Black and Latino children in this then drug and violent crime laden area of New York City. He personally recruited and transported a large group of Manhattan yuppies who joined Steve as a tutor volunteer.

He also volunteered in the Big Buddy Program of *Operation Exodus*, committing himself to his "little buddy," a young Latino who as a teenager was eventually left on the streets to fend for himself. As a result and with the permission of the boy's broken family and the leaders of *Operation Exodus*, Steve took him into his own home. For the next three years this young teenager became a live-in member of his household. When Steve and Molly (his wife)

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E-MAIL: Steven@ArcieriTalent.com

decided to marry, this young teen continued to have a home with the Prestons until he was able to gain employment at First Data (Steve's previous employer) and set up a home for himself. Steve and Molly were both committed to this young man even during their precious newlywed years. Today, he counts Steve as the only father he has ever known.

As far as Steve's business achievements are concerned, I can tell you that as impressive as his resume may be Steve Preston has succeeded first and foremost because he is not afraid to serve. Steve has a unique combination of exceptional drive and business acumen along with great personal humility and selflessness. His personal and professional reputations confirm this, which makes him perfectly suited for this new role as public servant.

I can also comment on Steve's ability to help small businesses. Although his broad experience affords him the skills to buy and sell companies as well as to run them, he is uniquely qualified to know what it takes for any size company to succeed, especially small ones. I can attest to this first hand. When I started my small business six years ago I received guidance and advice from Steve. As a result, I can confidently state that there is no one whom I would rather have guiding me to financial success more than Steve Preston.

In the very beginning stages prior to my opening *Arcieri & Associates Talent Agency*, Steve walked me through some of the potential trap doors and obstacles I would need to anticipate when starting my business. Although he has the ability to advise a fortune 500 company through the most complicated economic issues of running a successful business, he was able to discuss the smallest details of my small start-up. He stressed the importance of a coherent and viable business model and plan, suggested available resources and discussed financing alternatives and human resource/employee management issues. Steve's special brand of encouragement was invaluable to me-- especially during the early stages, the riskiest time in my career.

Through this lengthy process of starting a business I eventually sought the assistance of relevant government agencies and resources. In October of 2000 I applied and was accepted into the New York State Department of Labor's *Self Employment Program (SEP)*, which pointed me to partner organizations including the Small Business Administration's *Small Business Development Center* at Baruch College as well as the *Women's Venture Fund* (yes, they do also allow men to take training courses when requested). I completed the Small Business Development Center's program, receiving training in areas such as Microsoft Excel, Quicken for Business, Advertising and Marketing and many others in preparation for opening my business.

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Arcieri & Associates was established in January of 2001 and has grown each year. We now have seven employees and are on track to reach 1.5 million dollars in revenue this year. It is a success story on every level, and I give much credit to those who took time to listen, advise and encourage me as I made my way through the perilous maze of opening a small business. Steve understanding of the issues and desire to help were simply invaluable.

Steve Preston's successes in business and in life are, as I mentioned, first and foremost based on his willingness to serve, and there is no one whom I would trust more with serving the interests of small businesses across the United States than Steve. He truly is more than you could have ever hoped for-- **a super achiever in business with a long history of success who is committed to helping the little guy succeed.** Having been the recipient of his business advice and having seen first hand his character, work ethic and how deep his wisdom and talents run, I cannot help but be confident of his success as Administrator of the Small Business Administration.

Sincerely,

Steven Arcieri
President

305 MADISON AVENUE, STE 2315, NEW YORK, NY 10165 - PHONE 212 - 286 - 1700 / FAX 212 - 286 - 1110
E-MAIL: Steven@ArcieriTalent.com

Daniel C. Kenary
42 Chatham Circle
Wellesley, Ma. 02481

June 12, 2006

The Honorable Olympia Snowe
United States Senate
Committee on Small Business & Entrepreneurship
428A Russell Senate Office Building
Washington D.C. 20510-6350

Via Facsimile: 202-224-4885

Dear Senator Snowe:

I am writing to you to express my strong support for the nomination of Steve Preston to head the Small Business Administration. I have known Steve for twenty-five years and have spent a great deal of time with him in professional, social, and family settings. I feel that I know him very well. Before going on to tell you some things you may not hear elsewhere about him, let me tell you a bit about myself that may add some relevance to this letter.

I am the president and co-founder of the Harpoon Brewery in Boston. We employ 85 people at our two breweries and are celebrating our twentieth anniversary this month. We have twice been included on INC. Magazine's list of the 500 fastest growing private companies in the United States. In addition to my work at Harpoon, I serve as the president of the Boston Marine Park Business Association which represents the interests of more than 200 small-to-medium-sized businesses with over 3,200 employees in Boston's Marine Industrial Park and on the board of the Associated Industries of Massachusetts, a 90-year-old organization representing the interests of over 7,500 Massachusetts businesses.

Steve grew up in the blue-collar city of Janesville, Wisconsin. His grandfather was a coal miner in Kentucky and his dad was the ninth of eleven children born in a coal mining camp. Mr. Preston left Kentucky to join the military where he met his future wife while stationed in Germany. They settled in Wisconsin where Steve's dad was a line supervisor at a small plant in the northern part of the state and his mom was a clerk in a drug store. Steve is one of five children. Two siblings are teachers, one is a minister and the other is an administrative assistant. I tell you all this because I think it is important. You will hear much about Steve that will focus on his professional achievements – of which there are many, but I know Steve and can tell you that the story above is the essential one.

Steve was valedictorian of his senior class in high school and obtained a scholarship to Northwestern University in Evanston, IL from which he graduated summa cum laude. He went on to graduate school at the University of Chicago and to much professional success. I met Steve a month or so after we both finished college. We became fast friends and have remained so ever since.

After we both left Chicago, Steve for New York and me back to Boston, we stayed in close contact. While working long hours as an associate at an investment bank in New York, Steve always managed to – very quietly – find time to help others. He was active in his church, particularly in an educational ministry. At one point, he took a troubled kid into his home for an extended period of time. Later, after Steve was married, he had that same young man move to Nebraska where Steve and Molly were then living. This young man is now married, working, and going to college at night.

Steve would be embarrassed to tell you all of this himself, but I think it helps complete the picture of someone who has been very successful in his professional life and is now an appointee of a republican president at a time when there is not a lot of civility in Washington.

Back in the early days of Harpoon, Steve was someone I approached on many occasions for advice and support. In fact, he was an early investor in our company and helped us obtain debt financing. I should remind him that I may be the one responsible for his early interest in small business!

I have been in small business for almost my entire professional life. I know that the SBA has gone through a challenging period. I feel the SBA needs a bright, highly energetic, highly ethical person in charge. Steve brings all those things in spades. What he also brings are life experiences that will be very beneficial to government service.

Thank you very much for your time and consideration. I am actually between trips to the great state of Maine – where we have done business for almost twenty years. Friday I was in Portland and Wednesday I am traveling to Bangor.

Sincerely,

Daniel C. Kenary
President & Co-Founder
The Harpoon Brewery

306 Northern Avenue
Boston, Ma. 02210
617-574-9551 x-531

Association of Graphic Communications (AGC)

AGC Endorsement of Steven Preston for SBA Administrator Position

Dear AGC Member,

We are pleased to advise that the Association of Graphic Communciations is enthusiastically endorsing the candidacy of Mr. Steven Preston to be the next Administrator of the U.S. Small Business Administration in Washington, D.C.

As you know, over 80% of the firms located within our NY/NJ/CT metro area's $20 billion industry are small businesses. AGC's involvement with the SBA, which serves hundreds of thousands of small businesses throughout our country and is a key agency to the success and economic growth of such firms, continues to be a critical and active one. As is the case with any organization, the right person at its helm is paramount to its overall effectiveness.

For this reason, we believe that the best person to head up the SBA is Steven Preston and we wish to tell you why. Mr. Preston has nearly 25 years experience as a results-oriented executive in operations/technology and financial services. As a highly-respected leader who has earned the reputation for improving customer service experience, employee satisfaction, and operation efficiency, he is the right person to increase performance, efficiency and turn-around time at the SBA. His multi-faceted accomplishments and professional strengths such as commitment to service, education and community, are the very qualities that will resonate most resoundingly with small business owners, thus encouraging them to work closely in partnership with the agency. AGC would like to see Mr. Preston's talents help our nation most effectively in a role such as the leader of the Small Business Administration.

Steve currently serves as Executive Vice President of The ServiceMaster Company, a $4 billion revenue NYSE listed company with over 4,500 small business franchises. As ServiceMaster's # 3 executive, he heads up its Strategic Services Team including IT, Six Sigma, Strategic Sourcing, Strategy and Acquisitions. He served previously as the Chief Financial Officer of ServiceMaster, the Senior Vice President and Treasurer of First Data Corporation, and as an investment banker at Lehman Brothers. He has been recognized in CFO Magazine in "The Next Wave-Finance Executives Who Will Make A Difference in The Next Decade".

He is also Vice Chairman of the Board of Visitors to the Northwestern University Weinberg College of Arts and Sciences and co-chair of the Wilson Society, the leadership giving effort for the college, as well as a board member of the Hinsdale Hospital Foundation. He serves on the advisory boards for Tri-Artisan Partners, a boutique merchant bank, and for Concentric Equity Partners, a buyout fund focused on the services industry. He has served on a number of boards of philanthropic organizations that support various children and inner city causes.

Mr. Preston received his MBA from the University of Chicago Graduate School of Business, his BA (highest distinction) from Northwestern University and has studied at the Ludwig Maximillian Universitat in Munich, Germany. He and his family, wife Molly and five children, live in the Chicago area.

We hope you will join AGC in strongly supporting Mr. Preston's candidacy to the SBA Administrator post.

The Association of Graphic Communications (AGC), an affiliate of Printing Industries of America/Graphic Arts Technical Foundation, is a regional trade association representing the interests of the NY/NJ/CT metropolitan area's $20 billion graphic communications industry and is comprised of companies engaged in printing, prepress, advertising, publishing, graphic services, manufacturing and supplies. Its mission is to lead, advocate, educate and inform.

National Association of Federal Credit Unions (NAFCU)

NAFCU President/CEO Fred Becker's Statement on Steven C. Preston

NAFCU welcomes the nomination of Steven C. Preston to be the next administrator of the Small Business Administration. "Steven Preston has a wealth of experience in the credit and financial markets, with 11 years in the financial services industry," noted NAFCU President Fred Becker. "He is known as a results-oriented executive and financial services leader. We look forward to him being confirmed by the Senate and putting his considerable business acumen to work on improving the efficiency and turn-around-time of SBA."

Preston most recently served as the executive vice president of The ServiceMaster Company, which has more than 4,500 small business franchises. "We hope to work closely with Mr. Preston on furthering credit union participation in the SBA's 7(a) loan program," Becker said. "Credit unions have a very important role to play in our economy; for many credit union members, they are the only source of small start-up loans. And the 7(a) program is one way that credit unions can maximize their efforts to help members achieve their dreams of owning a small business."

NFIB Praises Steve Preston's Appointment as SBA Administrator

WASHINGTON, D.C.-The National Federation of Independent Business, the nation's largest small-business advocacy group, today praised the announcement by President Bush that Steven Preston is the administration's nominee to replace Hector Barreto as Administrator of the Small Business Administration.

As former executive vice president and chief financial officer for The ServiceMaster Company, Preston, who holds an MBA from the University of Chicago, has also served as senior vice president and treasurer of First Data Corporation and held a senior management position at Lehman Brothers.

Commenting on the president's appointment, Todd Stottlemyer, NFIB's president and CEO, offered the following statement:

"Steve Preston is a great choice to succeed Hector Barreto to head the Small Business Administration. He is a man who clearly understands the value of setting goals and achieving results in a large, complex organization, skills and knowledge that will serve him well at the SBA.

"At the same time, he has had invaluable experience in the credit and financing arenas, especially as he worked to meet the needs of his small-business customers. His reputation for customer service excellence will be welcomed by SBA's constituents.

"Small business is the heart and soul of our economy, representing more than 99 percent of all employer firms, more than half the private gross domestic product, and 60 to 80 percent of net new jobs created annually over the last decade. As the voice of small business, we look forward to working with him to help America's small-business owners thrive."

U.S. Chamber of Commerce Press Statement

Giovanni Coratolo, executive director of the Council on Small Business at the U.S. Chamber of Commerce, today released the following statement on the nomination of Steve Preston to serve as administrator of the Small Business Administration (SBA):

"We applaud the nomination of Steve Preston to head the SBA and believe he is a perfect fit to serve the interests of the nation's 25 million small businesses. During his 25 years as a financial services leader, Steve has built a stellar reputation as a results-oriented executive and a champion of operational efficiency.

Steve's credentials and background will be an asset to advancing the mission of the SBA. The Chamber and its members look forward to working with Steve on important small business issues, including access to capital and small business job creation, small business health plans and health care savings accounts, and the development of a capable and competitive workforce."

Credit Union National Association (CUNA)

STATEMENT BY CUNA PRESIDENT AND CEO DAN MICA
ON APPOINTMENT OF STEVEN PRESTON
AS ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION (SBA)

We look forward to the opportunity to discuss credit unions' interest in small-business lending with Steven Preston upon his confirmation as the next SBA Administrator. With a business background that includes financial services, a belief in operational efficiency, and a demonstrated interest in community involvement, Mr. Preston seems well-positioned to recognize the established role of credit unions in providing reasonably priced capital and nurturing the growth of their members' small businesses.

Carpet and Rug Institute of America (CRI)

Dear Members:

I would like to bring to your attention a recent nomination by President Bush for the Administrator of the Small Business Administration. I have reviewed his qualifications and believe we should support the nomination of Steven Preston for the position of Administrator of the Small Business Administration. He is a results-oriented executive and financial services leader. His record and reputation for improving the customer service experience, insuring employee satisfaction, and for continued improvements to operation efficiency are the right mix for SBA. Steve is the right person at the right time to increase performance, efficiency, and improve turn-around time at the Small Business Administration.

His record speaks for itself. Steven Preston is currently the Executive Vice President of The ServiceMaster Company. As such Steve leads the Strategic Services team, including IT, Six Sigma, Strategic Sourcing, Strategy and Acquisitions. His previous jobs as the Chief Financial Officer of ServiceMaster, the Senior Vice President and Treasurer of First Data Corporation, and as an investment banker at Lehman Brothers all point out the leadership and experience needed to insure the Small Business Administration continue to execute to its mission to " Maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters".

We believe the President has made an excellent choice in selecting Steve Preston and once confirmed will work tirelessly to insure small businesses and their families continue to be the backbone for our economy.

Frank K. Hurd, VP and COO . www.carpet-rug.org

Herbert P. Hess
36 Floret Circle
Hingham, MA 02043
781-749-3012

June 13, 2006

Senator Olympia Snowe
Chair, Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20510-6350

Dear Senator Snowe:

It is my pleasure and privilege to recommend Steven Preston to you for the responsibility of leading the Small Business Administration.

I moved to Boston more than 40 years ago with Procter & Gamble. After being recruited into the investment management business by State Street Research in 1965, I settled into a career of managing money for high net worth individuals and institutions, and am currently the President and CEO of North American Management Company, located in Boston.

My relationship with Steve Preston began when he joined The ServiceMaster Company, where I served as a Director for 22 years. In my role as Chair of the Audit Committee, I was able to work directly with Steve in his role of Chief Financial Officer in a variety of situations over a period of nine years, and was able to observe his character and capabilities as he dealt with financial and operational challenges.

I must first comment on his character. He is a man of honor, completely trustworthy, transparent in his motives, and able to earn the respect of people at all levels – in part because he shows respect for them. Not only does he demonstrate these characteristics in his own behavior, he requires the highest levels of personal and professional integrity from those under his leadership.

Steve's intellect is formidable. He is able to conceive of and execute complex financial and operational strategies— deftly handling the details while not losing site of the overall objectives. His leadership skills have been honed as he learned how to include others in his thinking process, bringing them to new levels, but without appearing condescending.

Over the years, Steve has lead numerous critical programs which were reported at the Board level, including restructurings, significant entry into public capital markets, automation of various technical processes, including handheld computers, GPS, and financial systems rollouts. Steve's high energy, dependability, and repeated successes gave the Board confidence that he was a competent leader, capable of handling an ever increasing array of diverse and complex responsibilities.

Whether Steve was presenting to the Board of Directors, or meeting with one of the hundreds of small business owners in ServiceMaster's franchised operations, he demonstrated his skills of listening, learning, coaching and problem solving. While his leadership style is participative, he is not reluctant to take a stand on issues that he feels strongly about, even when he stands alone. He appears to have excellent control of his ego, and is always willing to encourage others to challenge his thinking.

Leading the Small Business Administration would be an excellent fit for Steve, and I am proud to offer my endorsement of him for that position.

Sincerely,

Herbert P. Hess
President and CEO
North American Management Company

IZA BROTHERS, INC.

EXPORTER OF DIAMONDS

27 WEST 47TH STREET
LOWER LEVEL #8
NEW YORK, N.Y. 10036
212-391-2419

June 15, 2006
Senator Olympia Snowe
United States Senate
Washington, D.C. 20510

Dear Senator Snowe:

I am Founder and Board Chair of the educational non-profit Operation Exodus, which provides support for underserved Latino kids in New York City. Steven was my partner in starting up Operation Exodus almost 20 years ago. I have also run a small family-owned business in New York since August of 1978.

Operation Exodus Inner City provides programs that promote personal growth and educational achievement to underserved children, with an emphasis on the Latino community in New York City. OEIC offers after-school education, mentoring relationships, school placements and parent workshops.

Steve worked closely with me at a crucial time. Unfortunately so many nonprofits will fail if the foundation and vision is not properly laid. Due to his hard work in strategic planning, designing and executing new programs, and recruiting volunteers, we set the foundation to impact the lives of hundreds of children in Washington Heights. He has been an ardent supporter for 15 years, and I have drawn on his advice many times during that period.

Steve is not only diligent about attracting resources to help our children, but he personally was involved in the lives of many of our kids. An example that clearly illustrates his involvement in the children's lives is when Steve became mentor of a young man. This son of a single mom was at very high risk of falling through the cracks. Steve spent many sleepless nights smoothing things with mom, helping the young man with homework, talking to his teacher and counseling him. The young man did finish his school. He is currently working in a managerial position in Nebraska. He is married with 1 beautiful child on the way. The Latino children of New York City need many more Steves. We take pride that a high quality manager and a man compassionate for Latinos will be working for us in Washington, D.C.

Luis Iza

Capital Concepts Holdings, LLC

[illegible]
Suite [illegible]
Chicago, IL [illegible]
Tel (312) 692 1983
Fax (312) 692 2874
www.capitalconcepts.com

June 14, 2006

The Honorable Olympia Snowe
Chair, Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington D.C. 20510-6350

Re: Steven Preston's SBA Nomination

Dear Senator Snowe:

I am writing you in support of Mr. Steven Preston and his nomination to head the Small Business Administration. I have known Mr. Preston for several years, both professionally and socially, and believe I am qualified to comment on his abilities. I am a small business owner who knows the joys and trials of trying to run a successful business. I believe Mr. Preston understands these issues and is truly a friend of small business. I am also affiliated with the SBA through the Small Business Investment Company program (SBIC), where our company, DNJ Leasing, is a debenture licensee. As a member of the National Association of Small Business Investment Companies (NASBIC), I see firsthand the good work being done by SBIC's in promoting small business.

It is in the aforementioned contexts that I view Mr. Preston's qualifications. He is very strategic in his thinking and can articulate complex issues clearly and concisely. I know him to be diplomatic but also comfortable in a role as an agent of change. I have also been impressed with his ability to get to the heart of an issue and to compassionately recommend appropriate changes regardless of the impact it may have on a particular constituent. He simply does the right thing. He clearly understands the value of small businesses to the U.S economy. I am confident he will work tirelessly to fix the issues in the SBA to make it an effective voice for small business.

I respectfully urge you to endorse his nomination. I believe you will see, as have I, that Mr. Preston is a talented and effective leader. Please do not hesitate to contact me if I may provide more information to you on Mr. Preston.

Sincerely,

James N. Hallene

James N. Hallene
Principal

PATRIOT
CAPITAL, L.P.

16 West Madison Street
Baltimore, Maryland 21201
443.573.3010
443.573.3020 fax

June 15, 2006

Senator Olympia Snowe
United States Senate
Committee on Small Business & Entrepreneurship
154 Russell Senate Office Building
Washington, D.C. 205 10-1903

Dear Senator Snowe:

I am pleased to write in support of the President's recent nomination of Steven C. Preston to lead the Small Business Administration. I have known and worked closely with Steve for over 9 years in both a peer and subordinate capacity and believe he has exceptional qualifications for this very important leadership position.

While I was at ServiceMaster, I ran a division of the Company that was a joint venture between ServiceMaster and Kleiner Perkins, a Silicon Valley venture firm that focuses on early stage equity investments in small businesses. Mr. Preston served on the Board of Directors of this entity and was ServiceMaster's internal point person for this venture. This division focused on building a national network of residential service providers so homeowners would have one place to go for all of their home-related service needs. Mr. Preston's guidance that he provided to me during this venture was invaluable as he utilized his knowledge of the ServiceMaster small business franchise and branch network to help us effectively deal with the 6,500 small business owner who were part of our network.

Today, I am the managing partner of Patriot Capital, a Small Business Investment Company, licensed by SBA in FY 2003. Patriot Capital has invested in 14 companies and in aggregate has over 3,000 employees in its companies. Among others, Patriot's portfolio companies are helping to restore and rebuild the Gulf Coast, manage housing for mentally disabled children and provide highly engineered product solutions to the US aerospace and military industry.

Mr. Preston has served as a personal mentor for me while at ServiceMaster and while building Patriot Capital to its position today. His greatest excitement is learning about the challenges and successes we have had in building small businesses. Mr. Preston has a passion for small business that may not be apparent on his resume. He has a wealth of experience in business issues, issues that transcend the size of a company, such as human resource management, financial discipline, team-building and the power of listening to customers, employees and suppliers. Mr. Preston has these fundamental skills and is a tremendous leader who also has a high level of integrity and personal character. In short, I would work for or with Steve in any capacity again and look forward to a long relationship working with him again in his capacity as Administrator of SBA.

I would be delighted to answer any questions you might have regarding Mr. Preston.

Sincerely,

Charles P. McCusker
General Partner
Patriot Capital

Patriot Capital, L.P. is an SBIC licensed by the U.S. Small Business Administration.

Congress of the United States
Washington, DC 20515

June 16, 2006

The Honorable Olympia Snowe
Chair, Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, DC 20510

Dear Madam Chair:

As Members of the Illinois House delegation, we write to express our strong support for the confirmation of Steven C. Preston as Administrator of the U.S. Small Business Administration (SBA).

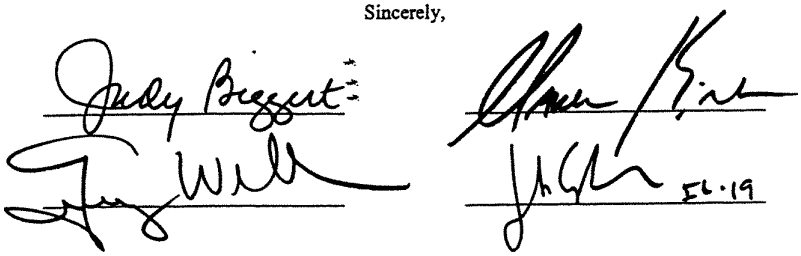
America's small businesses need strong advocates – not just in the U.S. Senate and House, but in the executive branch as well. In our view, Steve Preston will bring to the SBA the experienced leadership and vision that our small businesses deserve.

As Executive Vice President of Service Master, Inc., an Illinois based company with strong ties to small businesses throughout the country, Steve has demonstrated a unique combination of leadership, innovation and trouble shooting skills. He brings to the position sound fiscal management credentials, which are especially critical as the SBA reaches out to extend financial assistance and disaster loans to more small businesses and entrepreneurs.

Steve also has a long history with private equity and investment firms and has provided critical support to entrepreneurs who are building strong small businesses. Throughout his career, he has consistently worked to provide sound assistance to small businesses throughout the country.

In short, we know that Steve will bring sensible, results-oriented leadership to an agency that is critical to many entrepreneurs throughout the country. We are pleased to endorse him for Administrator of the SBA and urge the Committee to confirm his nomination.

Sincerely,



Henry Hyde

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

R. BRUCE JOSTEN
EXECUTIVE VICE PRESIDENT
Government Affairs

1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/463-5310

June 16, 2006

The Honorable Olympia J. Snowe
Chair
Committee on Small
Business and Entrepreneurship
United States Senate
Washington, D.C. 20510

Dear Madame Chair:

The U.S. Chamber of Commerce strongly endorses President Bush's nomination of Steve Preston to be the Administrator of the Small Business Administration (SBA). We believe that Mr. Preston's 25 years experience in senior leadership roles at ServiceMaster and First Data will provide him with the knowledge and skills necessary to efficiently run the SBA. Additionally, Mr. Preston's understanding of the financial services industry will provide the SBA with expert guidance and leadership as they engage the challenges of providing access to capital to our nation's 25 million small businesses.

It is of particular importance that a person with a high level of integrity and a determination to fairly represent small business serves in this essential position as Administrator. We unequivocally feel that Mr. Person is that person.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region. More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees. On behalf of those small businesses and organizations, we urge you to approve his nomination.

Sincerely,

R. Bruce Josten

R. Bruce Josten

June 13, 2006

Senator Olympia Snowe
United States Senate
Committee on Small Business & Entrepreneurship
154 Russell Senate Office Building
Washington, DC 20510-1903

Fax: 203-224-1946

Dear Senator Snowe;

I am writing in support of the recent nomination of Steven C. Preston to head the Small Business Administration. In my 15 year career as an entrepreneur and small business CEO in the United States, I believe that Steven is perfect for the position and as a proud entrepreneur and small business owner, I whole-heartedly support his nomination.

I have interacted with Steve as a result of his advisory role to Concentric Equity Partners. Concentric Equity is a lead investor in my most recent small business venture. This is my 4th start-up company and I believe that Concentric and Steve Preston have provided unparalleled expertise, business insight, mentoring, functional guidance and the type of support that someone in my position needs to grow a small entrepreneurial venture into a prospering company contributing to the U.S. economy.

I have found Steve's advice and insight, directly through meetings and conference calls, as well as indirectly through my workings with Concentric, to be extremely insightful, thoughtful and intelligent with regards to issues pertaining to strategy, finance, marketing- both strategic and tactical, and sales. I have looked forward to his input into my business which is not only valuable but is also delivered in a fashion that is supportive, collaborative and thoughtful.

So many people who participate in the "entrepreneurial ecosystem" can be heavy-handed, condescending and invasive in the way they provide "guidance" to the small business owner. As an entrepreneur, I have found Steve's input and that from the Fund that he advised, to be the exact opposite. I have welcomed their direction and input, as I would expect other small business owners will come to do if and when Steve assumes this position.

As a business professional at ServiceMaster, I found Steve to have an inherent love for small business and sensed his enthusiasm in discussing and tackling the challenges we go through every day at a seed-stage company. This is something that you either have or don't have and is a critical trait for the head of the SBA. You have that characteristic in Steve Preston.

Our company has grown from $40,000 in 2004 sales to $1,500,000 in 2005 sales and we are on track to exceed $10,000,000 in 2006 sales. We've grown from 4 employees in 2004 to over 70 today. Steve Preston, directly and indirectly, has helped us achieve these milestones and I think he would be an incredible asset in the heading up the Small Business Administration.

Please feel free to contact me with any other questions regarding our business or the nomination of Steve Preston to head the Small Business Administration.

With best regards,

Trevor B. Price
President & CEO
Nature Technologies, Inc.
101 Castleton St.
Suite 202
Pleasantville, NY 10570
914-741-9280
646-483-8347

ServiceMASTER Clean®

ServiceMaster Clean
3839 Forest Hill-Irene Road
Memphis, TN 38125-2502
Phone: 901/597-8160
Fax: 901/597-8161
misakson@smclean.com

Michael M. Isakson
President and
Chief Operating Officer

June 12, 2006

Senator Olympia Snowe
Chair, Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington DC 20510-6350

Dear Senator Snowe:

For many years I was a small business owner operating two businesses in North Dakota. Today, as Chief Operating Officer (COO) for Master Clean and Furniture Medic, I lead two national Brands that reflect a franchise partnership with over 3000 small business owners across the United States. Next year, I assume Chairmanship of the International Franchise Association. The IFA is the premier trade organization supporting the interests of the Franchise industry. Operating in over 75 categories, the IFA represents over 1000 large and small franchisors and over 7000 small business owners. The IFA truly understands the needs of small business people and is a great example of how a large organization can work to enable small business owners through training, technology and business partnership.

It has been my pleasure to work closely with Steve Preston as he has lead transformational initiatives that have impacted our small business owners. Whether he was championing information system solutions, introducing Six Sigma methodologies or bringing efficiencies to our vehicle programs, Steve's leadership has been instrumental. I have found Steve to be a businessman of exceptional character whose focus on doing the right thing has been unwavering. He is a leader who inspires confidence and relates to business leaders both large and small because he has truly walked in their shoes. Steve has a head for the strategic vision, goal setting and performance orientation associated with large business balanced with a heart for small business. This is truly a unique combination. His experience in banking, senior strategy and financial leadership positions along with his operating / reengineering experience will provide the SBA the sophisticated leadership it needs to address the challenges it faces.

The SBA has an opportunity to bring exceptional value to small business owners and the country alike with the confirmation of Steve Preston as the next Administrator of the SBA. Based on my background as well as my long personal relationship with Steve, I feel uniquely qualified to unconditionally endorse Steve Preston to lead the Small Business Administration.

Sincerely,

MIsakson

Michael M. Isakson
jk

A ServiceMASTER BRAND

HAROLD E. FORD
9TH DISTRICT, TENNESSEE

COMMITTEES:
BUDGET

FINANCIAL SERVICES

SUBCOMMITTEES:
CAPITAL MARKETS, INSURANCE, AND GOVERNMENT-SPONSORED ENTERPRISES

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

Congress of the United States
House of Representatives
Washington, DC 20515–4209

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FAX: (202) 225-5663

167 NORTH MAIN, SUITE 369
MEMPHIS, TN 38103
TEL.: (901) 544-4131
FAX: (901) 544-4329

WEBSITE:
www.house.gov/ford

June 20, 2006

The Honorable Olympia Snowe
Chair
Committee on Senate Small Business
and Entrepreneurship
428A Russell Senate Office Building
Washington DC, 20510

The Honorable John F. Kerry
Ranking Member
Committee on Senate Small Business
and Entrepreneurship
428A Russell Senate Office Building
Washington DC, 20510

Dear Senators Snowe and Kerry:

In appointing the replacement of Hector Barreto as the Director of the Small Business Administration, I would like to recommend Steven C. Preston. As you know, Mr. Preston is the Executive Vice President of Strategic Services for The ServiceMaster Company. ServiceMaster has more than 5,000 locations and 40,000 employees across the nation. While its headquarters are located in Downers Grove, Illinois, nine of its business units are located in Memphis, Tennessee, and employs approximately 1,250 people in my community. I appreciate Mr. Preston's qualification for the position given the contribution he has made to his company's growth and the promotion of job creation in my district and across the country.

Mr. Preston began his business career in 1982 and quickly became an industry leader in being a fiscally responsible executive in small and large companies. Through his leadership at the First National Bank of Chicago, Lehman Brothers, First Data Corporation and, most recently, with The ServiceMaster Company, he has honed his strengths of using sound financial strategy and vision while managing multiple priority companies. He has provided excellent leadership and quickly moved up the ranks within ServiceMaster. In the last two years, he has led the company's Strategic Service Initiative which involved strategic planning, mergers and acquisitions and strategic sourcing functions. He has had direct authority over approximately 250 people and a $30 million budget (over $100 million including dotted line responsibility). He has gained valuable knowledge in the area of small business, as he has worked closely with the company's small business franchise network. With his experience, vision and sound strategic thinking, I believe he will be most able in leading the Small Business Administration.

Thank you for careful consideration of this matter and I look forward to working with you on this and other matters important to our country.

Sincerely,

HAROLD FORD, JR.

CUNA
Credit Union National Association
cuna.org
DANIEL A. MICA
PRESIDENT & CEO
601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777 | FAX: 202-638-7734

June 20, 2006

The Honorable Olympia Snowe
Chair
Committee on Small Business and Entrepreneurship
U.S. Senate
428A RSOB
Washington, DC 20510

Dear Senator Snowe:

Tomorrow, the Committee on Small Business and Entrepreneurship will consider the nomination of Mr. Steven Preston to be the new Administrator of the Small Business Administration.

On behalf of the Credit Union National Association I would like to express our strongest support for bold leadership of the Small Business Administration that will champion the interests of small businesses and facilitate the ability of institutions, including credit unions, to help meet the financial needs of the nation's small businesses. By way of background, CUNA represents about 90% of the nation's 8,800 state and federal credit unions serving more than 87 million members.

In that connection, we support Mr. Preston's nomination and look forward to working with him to ensure credit unions have equitable access to SBA programs that help fortify small businesses.

As an advocate for the small business community, you have been in the forefront of protecting small enterprises and their access to much needed financial resources. We appreciate your support for small businesses and for the nation's credit unions.

All the best.

Sincerely,

Daniel A. Mica
President and CEO

Cc: John Murphy, President and CEO, Maine CU League

AMERICAN CREDIT UNIONS
PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | PHONE: 608-231-4000

Senator SNOWE. Thank you, Mr. Preston. We appreciate your statement and the last point that you made with respect to communication and collaboration are key ingredients, I think, they are critical to the success of the Agency. That is one of the things that we try to impart in working with the Agency is to work together on the issues. We are all moving in the same direction—we would like to move in the same direction as you have heard here today. The wide-ranging concerns that exist with the failure of the SBA to prominently elevate these programs and be an advocate for these programs that have been so instrumental to the success of economic growth in this country and a single greatest contributor to job growth in America.

So, there are a wide array of challenges and as I said earlier, there is a lengthy agenda awaiting you. You have already been down to the Gulf, you understand the dimensions of the problems where SBA failed to respond in a very quick, expeditious, and efficient way. I will not go through chapter and verse as we did in the conversation that we had in respect to what went wrong. Suffice it to say, that it was an unprecedented event that required an unprecedented response. This was SBA's moment to shine and to showcase all it could provide in one critical dimension of rebuilding the economy in the Gulf region.

So, with that, tell me, in hearing all the challenges you have heard today and obviously through your discussions with Members of this Committee, how do you intend to begin your leadership with the Agency and where will you begin, what first will you do?

Mr. PRESTON. Thank you for your question. I think there are a couple of things; I know disaster assistance is job No. 1. I was fortunate enough to speak with Senator Vitter and Landrieu, as you have mentioned, I have been down there and I know it is absolutely critical that we serve the needs of those Americans in their dire time of need effectively and responsively.

Senator, I heard a comment a little earlier about some earlier issues—I was across the street from the World Trade Center in 1993 when the first terrorist bomb went off, and I have lived in many parts of this country that suffer from tornados, so I feel like this is something that is very important to me. What I need to do is dig very deep in understanding the issues behind this problem. The process of making a disaster loan is multi-faceted and has steps all along the way and it is a classic opportunity to dig deep with good business solutions.

I also know from the limited conversations I have had with people at the Small Business Administration that a lot of work has been done on the technology side and otherwise, but I really need to get in there and kick the tires. I also need to understand, and we all do, whether or not the private sector can be effective in helping us out, because there are situations—we have heard many situations where the SBA has done well. Senator Durbin mentioned a situation in Illinois. I have heard from other people on the Committee where they did do well. This obviously is a type of disaster we need to be prepared for and we need a plan in place and we need to be able to accommodate all kinds of disasters. So this is job No. 1.

The other thing I would like to say is very quickly after coming through the door, if I am confirmed, I need to get out on a listening tour. I need to spend time with our employees, the employee morale issue is gravely concerning to me. The SBA is a service organization, it has got a terrific mission and we need to have an employee base that is driven by that mission every day to fulfill the needs of those customers, and that is tough to do with low morale. So I have got to get out there and talk to the employees. I have got to get out there and listen to the people we serve. I have got to spend time with people on your staffs to really build a picture to make sure that we are effective. And I would like to say in noting that, I think 90 percent of the good ideas in how to improve an organization are generally out there, they just need to be captured and crystalized.

Finally, I think I need to get deep into some of those pragmatic evaluations and understand where they are effective and where they are not and how we can bring good solutions to them.

Senator SNOWE. I appreciate that because obviously this is an agenda that is laden with some serious concerns and serious issues. When we receive reports that list all the agencies, SBA is basically in last place when it comes to the level of morale. Frankly, I think it gets back to the original issues that many of us raised, and Senator Kerry as well, and that is the undercutting of so many of these prime programs and resources. Granted there are agencies that can do more with less, but how much less? When you are really handicapped by shortages of resources and personnel, and as we say on the front lines in a disaster area as large and as great as in the Gulf region that went on for months on end, that is seriously troubling at a time which this Agency should have been at the forefront and should have been able to move immediately to weigh in to provide that front level and that front line support to rebuilding the economic infrastructure.

Can you tell this Committee what, in your views, what corrective actions could take place with respect to how to respond and how we complete this process in the Gulf region? From here on out, what should the Agency be doing to fix this as efficiently and as quickly as possible. Since we are only at 20 percent of disbursed loans, which never should have happened, there is so much lag time involved in all of this, it was just no sense of urgency given the level and depth of the disaster in the Gulf region, and yet they just did not step up to the plate quickly and for many months there was hesitation and procrastination.

Mr. PRESTON. When I was down in the Gulf I had a chance to speak with several business owners who were in the process of getting disaster loans. It was very helpful for me to see firsthand what their stories were and the issues they had. What I understand of the disaster lending process, it is a multi-step process which involves, reaching out to people, bringing them in, taking them though a credit approval process, taking them through a closing process, taking them through a disbursement process and any stepline. That way, there are multiple steps within each one of those and there is an opportunity for a failure point. It is a highly complex set of business processes.

So I think we need to get very deep operationally to understand exactly whether there are failure points along that way, whether those processes can be redesigned, whether we can leverage the private sector in some way to accelerate the process along the way. With respect to the disbursement side specifically, I think I will need to understand much more deeply what the root causes are there. I know some of them may be within the SBA process, some of them might be outside the SBA with respect to people getting insurance or building permits.

When I look at that I wonder, cannot we be helpful in understanding what those problems are outside the SBA in working to help the people in need even if it is collaborating with other agencies or other people in the private sector? So, my view is I need to get very deep very quickly and work with the people and get this along the way of becoming a much more effective process.

The other thing I would like to say Senator, is the process has to be sized for a lot of different kinds of events and I think it is important that we think about something like Katrina as being a surge event, where you have just a tremendously dramatic need and it is almost like an emergency plan in place that you have. We have to look at what we can do at different levels of activity and how we perform up to standard at those different levels.

Senator SNOWE. I appreciate that and one of your first duties when you are confirmed is having to deliver a report to Congress on how SBA intends to respond to having a disaster response in place for the 2006 hurricane season as well.

Senator Kerry.

Senator KERRY. Mr. Preston, some concerns have been raised by members of the small business community that given your history with ServiceMaster and ServiceMaster's history with the Committee itself and the Comp/Demo program, that you may find yourself in a perceived conflict of interest when you are confirmed with regard to the SBA policy on franchises. There is now a proposal in the Manzullo reauthorization Bill out of the House, which changes the definition of a franchise with respect to the Small Business Act. That provision gives the Administrator pretty broad discretion. I am wondering, should you be confirmed, if you see a need to recuse yourself from situations such as that where there may be a perceived sense of conflict of interest.

Mr. PRESTON. First of all, let me just say, Senator, that if I am confirmed, when I walk through that door I am the chief advocate of small business, period. I have no concern about whether or not I will be able to fully advocate on their behalf. I think it would be very important for me when these types of issues come up, to seek the advice of conflict counsel. But in terms of my commitment to the small business cause, it will be unwavering.

Senator KERRY. Well, what is your view then, about this issue of franchises? For years franchises that tend to be wholly owned and have significant support structures from the very large corporate entities with significant flow of capital have not been considered small businesses. Do you see anything that merits the notion that all of a sudden they should be qualified for SBA assistance? Should they be defined as small businesses?

Mr. PRESTON. I think there are a lot of flavors of franchises and there are a lot of different ownership structures, Senator. My experience has been that the franchise organization I am associated with, almost entirely enables them to become prime contractors in any situation, even if we are helping them out in a business situation. So I think I would need to take into consideration the structure of those entities and specific intent of those laws.

Senator KERRY. What would guide you as you do that? What would your concern be with respect to whether or not franchises should qualify as small businesses?

Mr. PRESTON. My concern would be whether or not it truly fosters the small business community and small business growth.

Senator KERRY. Would the concern extend beyond that to a longer list of criteria about what kind of financial support structure they may have, what the nature of the franchise is—and I do not disagree with you, there are different kinds of franchises in principle. Would you be guarded about this concept?

Mr. PRESTON. I think we would have to take all those issues into consideration and I am not especially close to the legislation you are discussing; I know it is relatively recent. But certainly I would feel the need to get very deep in understanding those relationships.

Senator KERRY. Did you play any role yourself personally as Vice President of ServiceMaster with respect to formulation of ServiceMaster's history and the comp/demo program?

Mr. PRESTON. No, I really learned about comp/demo in the process of this nomination, and have been briefed on it to some degree since then.

Senator KERRY. So that is not a policy that you have personally developed and/or taken a position on with respect to any public advocacy?

Mr. PRESTON. I would say even further, Senator, it is not even something that I was aware of or understood until recently.

Senator KERRY. Good. I assume you will look carefully at this question of any perceived conflict of interest with respect to franchising issues?

Mr. PRESTON. Yes.

Senator KERRY. Commit to the Committee that that is an advice from counsel that you will seek?

Mr. PRESTON. Are you commenting on a potential recusal on my part or conflict of interest?

Senator KERRY. Yes.

Mr. PRESTON. I would need to seek the advice of counsel on whether or not to recuse myself and would certainly need to abide by that advice.

Senator KERRY. Also ServiceMaster has a history with the Committee of lobbying to put an end to small business set-asides in industries such as landscaping and pest control in the Defense Department comp/demo program. What is your position on ServiceMaster's efforts to include those industries in a small business demonstration program?

Mr. PRESTON. Once again, this is for the part and parcel of the issue that I became aware of in the process of my nomination. I do not fully understand the potential impact of that change in the set-aside requirements on small business, and what I would like to do

is understand it more fully. I know that—my understanding is there are a lot of different views on the impact of that legislation on small business, but frankly, I do not feel like I have the depth of understanding or the data to understand really what the impact is at this point.

Senator KERRY. You cannot tell us at this point whether or not you would support the small business community in its efforts to end the program? The Small Business Committee, as a whole, is seeking to do that. Since you are going to be an advocate for the small business community, are you going to stand with them on that effort, which is contrary to what ServiceMaster did?

Mr. PRESTON. I would absolutely seek the input of the small business community on any legislative issue and work hard to understand their needs and view myself as their chief advocate. Once again, I do not view any history that I have had as being contrary to the interests of small business and in fact, it has given me a gateway to understand their needs and concerns.

Senator KERRY. With respect to contracting, one of the most egregious failures of recent years at the SBA is the failure to insure that agencies are meeting their contracting goals. The SBA is supposed to be a watchdog in that effort. IG reports reinforce the need for more staffing, and last year's IG report indicated that a significant amount of small business contracts went to large firms and not small businesses. So my question to you is, under your leadership, do you commit to meeting what are already deemed to be, both by Congress and the executive branch, reasonable goals for underserved communities?

Mr. PRESTON. Yes, and let me comment on your question. I think if there is inappropriate activity occurring anywhere in here, it is unacceptable. I want to thank you all for confirming the IG and I think that group is going to be a very important partner of mine in insuring that the operations of the SBA are moving forward effectively. I know it is our job to work with the other agencies to meet their contracting goals and my view is we have tools available to us to help them do that and it is our job to help them as fully as we can to meet those goals.

Senator KERRY. I see a vote has started, so I am going to end my questioning. I understand we will have until Friday of this week to submit questions in writing?

Senator SNOWE. Yes.

Senator KERRY. Thank you Chair Snowe.

Senator SNOWE. Recognizing Senator Coleman.

Senator COLEMAN. Thank you, Madam Chair.

Mr. Preston and I talked a little bit about the micro-lending program and this Committee has expressed very strong support for that program in the past, the Administration keeps coming back with wanting to cut the program. Can you give me your general views on micro-lending?

Mr. PRESTON. The micro-lending industry overall is absolutely critical for serving the tier of businesses that do not have access to capital otherwise. It is a tier of businesses that serve a vital role in the economy. In fact, as an aside, we see micro-lending taking hold in developing economies and a way to drive them forward. So it is an absolutely vital capital source. I also know that the market

for small loans in the private sector has grown dramatically over the number of years and the SBA provides small business loans through a number of its programs. I absolutely believe in the value of small business loans. I understand that this issue with respect to the micro-loan program at the SBA has been a concern for many members in the Committee, and I would absolutely look forward to digging in more deeply if I am confirmed.

Senator COLEMAN. What we need you to do here is have the courage and strength to go back to OMB and one, clearly express the views of the Committee. We would try to express it personally, but you are in a position where you have to articulate the Administration's position, we understand that, but this is one where I would hope that you would go back and consistently keep in mind the Committee's strong support for micro-lending.

I serve on foreign relations—these are the programs we tout internationally. This is one of the great opportunities for development in Africa, and Latin America, and Asia. I would just hope that the message that is coming from this Committee is loud and clear, and though I understand the responsibility for presenting the Administration's positions, I think there is also responsibility that you need to go back and not to simply meekly accept it, but to articulate what their concerns are.

Let me just say a little bit about rural development. Can you give me a little sense—have you given much thought to what the SBA—what more they can do, what role they play in rural development. Oftentimes rural communities are struggling, regional incentives are very strong, the SBA can play a vital role. There is a lot going on now and with the use of technology in rural communities, things we are seeing with ethanol and the possibilities of developing there, biotechnology, etc., I think there is a real role for SBA here and I would like to get your sense, or have you given much thought to the rural aspect of it and how you would further develop it.

Mr. PRESTON. Senator, as you know I grew up in Wisconsin, my parents live in a town of about 1,500 people and a fact that you did not see on my resume is I was the treasurer of the Future Farmer's of America in high school. So rural America is sort of an important part of my roots. One of the things that I think is most exciting about the opportunities the SBA can bring to people is the opportunity both to work with people in both urban and rural settings where there is a dramatic need for businesses, a dramatic need for job creation, and to do so in innovative ways. I was encouraged when I spoke with Senator Burns about a business in his home State called Printing for Less. One of the things that struck me about it was, here is a business in rural America that has been enabled through the Internet and through the advancement of the logistic industry.

So even while we are seeing transition in rural areas that is impacting in the negative ways, I think the business infrastructure in our economy is available to help them in very positive ways to transform. And I would very much look forward to spending time with you and people in your home State and a number of people on this Committee who have very strong rural interests, to understand how we can be more effective in serving rural communities.

Senator COLEMAN. I share that optimism. I share that sense of possibility. There is opportunity out there, but SBA can and must be a part of it. I look forward to working with you on that. Thank you.

Mr. PRESTON. Thank you.

Senator SNOWE. Senator Vitter.

Senator VITTER. Thank you, Madam Chair.

Mr. Preston, going back to disaster loans and disaster recovery, will you be completely open to new and significant roles possibly for local private financial institutions, particularly in a surge situation like Katrina and Rita clearly are, to not only help administer the program but conceivably maybe even be direct lenders with a guarantee versus SBA being direct lenders?

Mr. PRESTON. Senator, I really think we need to be open to all possibilities and the bigger the disaster I think the more creative we have to be in serving the needs of disaster victims. I know that you have spent a tremendous amount of time with people in Louisiana dealing with this issue. I would very much look forward to spending time with you and the people that you think understand this issue the best in crafting the right solutions for the disaster recovery effort. So this is something I care very deeply about and as you and I discussed, I intend to spend a very significant amount of my time in addressing the issue.

Senator VITTER. Great. I am also very interested in the small business innovation research program and we touched on that when we met. As you know right now, that program reserves 2.5 percent of R&D budgets for small business, and I quite frankly, would like to increase that, I would personally like to double that 5 percent. As we reauthorize that program and you go into the SBA, will you be open to that—looking at that small business innovation research program?

Mr. PRESTON. Yes, this is actually an interesting issue because as I have come into this process, I know there are a number of issues and concerns that people have that deal with the amount that goes to the program, it deals with the ownership of the companies that are engaged in the program, it goes with the geographic focus of the program. One message I have gotten very strongly from Members of this Committee is that is something I need to give my attention to and to help understand, really, how to serve the needs of the business community most effectively in this program. I would look forward to spending time with you and hearing from you in that process.

Senator VITTER. Great. And a final question for me, and this goes back to the hurricanes and one of our biggest frustrations, at least on this Committee, is some of the no-bid mega contracts that are sort of thrown out there as FEMA was trying to play catch-up after the fact and get some things done. In most of those cases, what happened is you had multiple layers of subcontractors built up under a huge mega contract. A good example is the Blue Roof contract, at least in Louisiana, there were so many layers of subs beneath the pond that the folks actually putting the tar on roofs—two things were happening; one, the amount we were paying per square to the pond was more than it takes to put a permanent roof

on houses. Mine is not a shoddy roof, but the roof on my house was less expensive than that square of blur tar.

Secondly, the person actually putting on the roof was getting on order of literally 3 percent of the pond contract funds. Now it takes something to manage a lot of subs, a big geographic area, to do paperwork, to do reports—it takes something to do that. It should not take 97 percent of the contract price to do that.

I have introduced a bill to create a whole new model to avoid those layers. Other Members have similar ideas to create a new model to avoid those layers. Will you be actively engaged in that discussion, looking at my legislation, looking at other legislation, helping lead a discussion in the Administration because it does—it is probably not primarily in SBA, there is a broader issue, but it certainly impacts small business.

Mr. PRESTON. I would love to dig into that with you all. I think that when we address this problem more broadly, we have to understand that there needs to be a mechanism in place that contemplates something very large, and I am sure in this process we have seen people who wanted to be responsive, but their best intentions of trying to serve people—and we find ourselves in situations like this because they are expeditious. In looking forward, I think we need to pre-contemplate what could happen and what mechanisms need to be in place to enable the outcomes that we hope will be there ultimately. I would look forward to spending time with you and anybody else who is engaged in this issue because I think it is a very important one for us to understand.

Senator VITTER. Thank you, Madam Chair.

Senator SNOWE. Thank you, Senator Vitter.

Senator Pryor.

Senator PRYOR. Thank you, Madam Chair. I just have a few questions, I know we are on a time crunch on a vote. Large businesses that acquired small businesses before the end of 2004, according to current SBA guidelines, the small business that has been acquired is allowed to keep their status as a small business for up to 20 years. The IG has looked at this and they conclude that this needs to be fixed, that there should be an annual recertification; do you agree with that recommendation?

Mr. PRESTON. Senator, I have not spent enough time with the IG to understand the basis of the recommendation and what alternatives were looked at. I do think this is a very important issue to the Committee, it relates to that, it relates to small businesses that become big businesses, and it relates to other ways in which, I guess, small businesses can get small business contracts. I know that I will have to spend time on this issue and understanding it.

Senator PRYOR. That is an area—that whole little realm there is an area we ought to spend some time on. Given what you know right now about the SBA, do you see any programs that need to be eliminated or scaled back in the SBA?

Mr. PRESTON. I come in, to a degree, with the presumption that in large part what the SBA does, that its programmatic structure is valid and important, so to a degree, I come in with a focus on how to be more effective with those programs in serving the objectives. Are we reaching out to the right people? When they come in

the door, are we treating them well and helping them, and at the other end, are we producing the outcomes that we hope to produce?

So, I do not come in with the presumption that programmatically we have got big issues, but I do know that I need to understand the differences out there around these programs.

Senator PRYOR. One program that we have discussed is the Women's Business Centers which I think is an initiative that has had a lot of success, but they are really starved for funding now. It may be too early to ask you if you plan to restore that funding or work to restore that funding, but I would strongly encourage you to do that. Also, that raises a larger question about your intention as it stands today, of fighting for dollars for SBA. I am convinced that when you put Federal dollars into SBA programs that are structured correctly and that actually work—and most of them have great track records—that it can have a huge positive ripple effect in the economy. So I would just like to hear your intentions of whether you will go to bat for your Agency with OMB and the White House to try to make sure that you have adequate funding to get things done, that Congress wants you to get done.

Mr. PRESTON. My job, Senator, is to work very hard to deliver this service of the SBA as effectively and fully as possible and to the extent that that requires budgetary issues, I have to be all over it.

Senator PRYOR. Thank you, Madam Chair.

Senator SNOWE. Thank you, Senator Pryor.

Senator Thune.

Senator THUNE. Thank you, Madam Chair. I know we have to go vote; so I will keep this brief, but I appreciate your being here, Mr. Preston, and entertaining the idea of public service which I think is a very high calling. It seems to me that your past experience in finance as a CFO will serve you very well in managing the multiple loan programs that exist at the SBA. Of course, in recent years, SBA is always being asked to do more with less, you know, more loans, more disaster response, more business development assistance, all with fewer dollars. So you have a big challenge ahead of you and we want to be helpful and work with you as much as we can to make sure you have the resources and the manpower to undertake and serve the purpose and the mission for which SBA was created.

I am also interested, as my colleague from Minnesota, Norm Coleman mentioned, in what we can do to develop economic opportunity in rural areas of the country. We see increasing out-migration. There are some silver linings—I should not say silver linings, but there are some opportunities there for economic development particularly in the area of renewable fuels and we have seen a considerable amount of success with ethanol and bio-fuels and those sorts of things that are creating jobs in rural areas, but we want to continue to pursue those sorts of opportunities in order to keep young people in rural areas of the country.

Let me just, in the interest of time, propose one question, if I might, and if we have others I will submit them for the record as well, Madam Chair. Some of the critics of the SBA at times voice concern over the lack of any clear indicators for effectiveness when it comes to loan programs currently administered beyond simply

the number of loans approved. I am wondering if you have any thoughts about measurements that could be taken to see how those SBA loan programs are helping small businesses succeed and are they helping the economy at large, are they creating jobs, are there better ways we can measure that?

Mr. PRESTON. I have spent a lot of my time in the matrix world, as you can probably appreciate, that is sort of what I have had for breakfast most of my life. I think it is very important when we look at these programs to think about the outcomes that we are generating. Once again, are we reaching the right people, are we helping them get access to our programs, and once they get access, are we producing the right outcomes? And many times, statistics really do not tell you that. I have always loved the phrase from a prior chairman at the company I am with right now, he says, "Did you hear the story about the man who drowned crossing the river with an average depth of 3 feet?" You know, somehow it sounds that it is shallow, but you have got a problem along the way potentially.

Looking at the right information and looking at the right outcomes is very important to understanding our success. Then taking that and advocating and communicating it on behalf of the people we serve is very important. So I understand the issue and it is something I think I will be devoting a lot of time to if I am confirmed to this position.

Senator THUNE. I appreciate that. I think the good work that the Agency does sometimes does not get recognized. Part of it is communication and part of it is figuring out how better to measure some of those statistics that I think give evidence to that good work. We look forward to working with you on that, as well, as on focusing those programs on the outcomes, on the results that you have mentioned and that we all want to see achieved. These programs are really impacting and making a difference in the economy, helping small businesses grow and expanding great jobs which is what this Committee is interested in and I think it is what the purpose of the Agency is and we welcome the opportunity to work with you to that end.

Thank you for your willingness to serve and we anticipate and look forward to moving your nomination forward.

Senator SNOWE. Thank you, Senator Thune. We have another vote pending on this, and I am going to recess. I have a few more questions, Mr. Preston, so if you can bear with us a few more moments, I will cast two votes and I will be right back.

[Recess.]

Senator SNOWE. The hearing will come back to order. I am sorry for the interruption. I just have a few more questions about some of the several key issues, as I mentioned in my opening statement, concerning the lending program and the fees that had been recommended by the Administration, additional fees beyond the fact that there are no zero subsidies and they are now recommending in this latest budget for increased fees in 7(a) and 504.

So I would like to hear your views on how you intend to go about it because I really see this as moving in an entirely different direction in terms of supporting the core programs that are so essential. It seems to me it is a contradiction to, on one hand, tout SBA and its programs, and yet on the other hand, I think moving in a direc-

tion that ultimately undercuts the value of these programs that going to make it so much more expensive for small businesses to access these programs.

So I see it as contradictory and counterintuitive when we should be elevating these programs and at the very least, not imposing additional costs on the very businesses we are trying to help. So I would like to have your views on this approach because this is entirely new. It is one thing to go to zero subsidy, but this is now going even further, that represents additional and very expensive costs to small businesses who want to take advantage of these SBA programs.

Mr. PRESTON. I know that every dollar counts for the small business person and every dollar is valuable when you are looking at paying your employees and your vendors and moving your business forward. This is something I know I will have to spend some time on and hear from you and other Members of the Committee on your views, and also really understand the impact these have on the programs. I also think much more broadly, I need to dig into the programs to understand whether or not we are reaching enough people, and if there are other ways that we can expand participation to programs, whether we have the right vehicles in place to reach people, and through the program and serving their needs and producing the outcomes on the other side.

So I look at this, Senator, as being the issue that you brought up and additionally, I look at it as a broader issue to see how we can serve people more effectively.

Senator SNOWE. I appreciate that and I think that you really should examine what the impact is going to be on requiring these additional fees. The Administration has not exactly indicated yet how they intend to go about—who they are going to impose these fees on, the lenders or the borrowers. That is another dimension to this question. You have critical lending programs and to now impose these additional fees, in fact, look at the 7(a), 504 and the SBIC programs, on the 7(a) program, the fee would be 4/100 of a percent or about $623 per loan; the 504 the fee would be 11/100 or up to $11,000 per loan, maximum $10 million under that program, and finally, the SBIC programs 64/100 of a percent for an average of $45,360.

So these additional burdens are over and above what small businesses already pay. They have not issued a program yet in terms of who will be paying these fees, but again, I think in the final analysis, someone is going to bear the cost that ultimately has an impact on these programs and the vitality of these programs. I think this especially conflicts with the notion that you were trying to help people who cannot access financing elsewhere. That, I think, even makes it more difficult and creates another barrier.

So I see it moving entirely in the opposite direction from what we should be espousing when it comes to the three very important core programs to the Small Business Administration. So I hope you can examine that very carefully because as we move ahead on the reauthorization process, it is going to be even more critical to get your input and see if we can work through some of these issues because it is clearly not something that I intend to accept at this

point, and I know that it is a view shared by other Members of the Committee as well.

On the budget, and you have heard that from other Members of the Committee, it is just that it has been consistently a declining budget over the past 6 years to the point now it represents a 37 percent decrease from 2001. Even the disaster loan programs have declined more than 25 percent over the past 6 years. We are seeing not much support from the Administration in terms of reinvigorating the SBA programs where we really get more bang for the buck. There is no question about it; the leveraging of jobs—we do not tout the leveraging of jobs which is something I have recommended.

We need to include in the budget of the SBA, the number of jobs that these programs create. The fact that since 1999 we have created more than 5 million jobs, is not something that we celebrate, herald, or anything. And yet, probably very few agencies or programs are the equivalent of what the SBA has been able to generate in terms of job creation, in terms of its value in producing a dividend for our Government and for the economy.

So I would be interested in what your views are and how you intend to look at these budgetary issues as you move forward.

Mr. PRESTON. One of the things I mentioned earlier is the importance of my getting out there on a listening tour. I need to hear the comments of the people we serve and I need to hear the comments of the people in our field offices. These are the people on the front line touching constituents everyday and I need to understand the people on the Committee more deeply, because obviously, when we look at putting together a budget and presenting it, there are a number of aspects of that budget. It is going to be my job to deliver a budget to this Committee and to the Senate that I believe meets the objectives of the Agency.

Senator SNOWE. In lieu of hearing your letter, if have not already seen it, that was sent to the Senate Subcommittee on Commerce that indicated—it was signed by all 18 Members of the Small Business Committee, reflecting our concerns with the proposed SBA budget request that included all the cuts and imposition of fees that I just talked about. These concerns were increasing fees to the 7(a), 504 and SBIC that I mentioned, changes to disaster loan interest rates, which I did not even get into today, but again, at a time in which people are in desperate straights needing disaster assistance, the Administration's proposing increasing the interest rate.

Elimination of the Micro-Loan program is also of interest. The program is strongly supported in this Committee and certainly by me, and this program is another way in which I think that should spur economic growth and job creation, can do so much with so little and it just really works very well and very effectively. Proposed elimination by the Administration is lower funding for the programs at the Women's Business Center that you heard about, the Small Business Development Centers and the Veterans' Business Development Program and SCORE. For the first time in 5 years, the Administration is proposing a decrease in funding for the SCORE program which provides invaluable assistance and counseling for thousands of small business owners across the country.

Clearly we are moving totally in a contradictory direction, at a time in which we should be making greater investments in programs and this kind of assistance because it creates jobs. The net result is it creates jobs, it is definitive and we have seen the end result of these programs. Again, we are moving in the opposite direction.

And finally, the removal of the line-item request for HUBZone Programs and the U.S. Export Assistance Tax. The HUBZone Program, here again, is a great way of being able to utilize what—the Federal Government already spends money on for example, on contracting programs. I know that is the main reason the staff was up there in, I think, in December, conducting seminars on how we could make available to small businesses, in the key areas that are effected by high unemployment, to make available some of the money that is available for the contracting process on which the Federal Government spends $350 million, another way of creating a win-win situation in areas that are adversely affected by declining economy and losing jobs.

So, I would hope you would review that letter, but most importantly, the programs and the budget requests that are made by the Administration in this regard. This is something that we are deeply concerned about here on the Committee.

Mr. PRESTON. Thank you. I do not have the letter, but I look forward to reading it and spending time with your staff and understanding it fully, Senator.

Senator SNOWE. I appreciate that and we will have, obviously, further discussions regarding these budget requests. And finally, I know that when we had flooding in Southern Maine, it really came home again, just as in the Gulf region, that you need people on the ground. It is so much more effective. I do not see why it makes sense to centralize all these people in Washington, DC when they should be out there trying to tout these programs, make them available to small business owners and in the case of disaster, evermore critical to have field and resource people on the ground to assist them on a daily basis and make sure of the working system to get the loans and the assistance that they desperately need at that time.

And so again, the direction that we are moving in simply does not make sense to me. Why we would want to centralize all of those resources here in Washington, DC when it can do so much more out in the field in conducting outreach to the people who obviously need the support of these programs.

Mr. PRESTON. Certainly this type of issue is one that businesses face all the time. What can you centralize to be more effective and efficient through better training and sort of critical mass, and at what point do you lose sensitivity to the person you are serving by not being physically there. One of the things that strikes me in this regard is the SBA, as you have noted, has not only its own network, but a number of other networks that it partners with, certainly it has the ability to partner with local organizations. One of the things that will be important for me to understand is, how do you get those touch points out there with the people you need to service when they need the service? And how do you be effective in delivering at the back end? I think that this is something cer-

tainly, Senator, that I want to dig into and understand more broadly, how to be effective in those situations.

Senator SNOWE. I appreciate that and again that is something we will follow-up with you on as well. It gets back to the issues you raised in your opening statement about collaboration and communication. It really can work well and resolve a lot of issues and it certainly would help to buttress the very programs of people we want to serve. If we could be working together to the extent possible on some of these issues, I think in terms of the disaster loan assistance, we worked mightily to move a block of legislation in the U.S. Senate on the unanimous consent basis to help address and mitigate the problems in the Gulf region.

One of the components of that bill was a bridge loan to assist small businesses until they could actually get their loan. But they needed to get started and we heard that from so many small business owners down in the region, we heard it from representatives of the government both state and local, we heard it through testimony here during the course of our hearing, and yet we could not get the Administration and the SBA Administrator to agree to support the bridge loan, yet they said that that was one of the things they needed in order to bridge the gap until small business owners could actually get the loans and get going. Yet, they would not give support to the idea of giving bridge loans. It was an unprecedented disaster, yet on the other hand they were not willing to seek the tools or advocate the tools that would have been so vital to getting the job done. And still, it is in limbo today. It is mystifying to me because it makes so much sense, it would certainly simplify the process and ease the burdens of the people we were trying to help.

On small business investments, the SBIC programs, this is an area that also enjoys broad support here on the Committee. I have introduced legislation to rebuild the participating securities dimension of the SBIC. Again, why is the SBIC program and the participating securities part of it, is so critical that it benefits, especially the manufacturing sector, in providing venture capital, but otherwise would not be available through the conventional lending process. The program invested over $17 billion in small businesses since 1999, so it has had the result of creating thousands of jobs.

I have introduced legislation to continue this program, to improve it, to address some of the problems that did develop over the last few years. But what is interesting about it is, the SBA recommended in 2005 $4 billion, and then this year and next year, zero. So it went from $4 billion to zero. Again, we were not able to make any headway with SBA on this program and they did not obviously, include it in their future budget of 2007. So they are really not committed to continuing this program.

I just wanted to know if you have any opinions on the whole notion of providing venture capital to small businesses, and second, having your commitment to work through it with the Committee to at least see what can be done to restore this program because, otherwise, there is a dimension of our economy when it comes to manufacturing, that basically will not get the kind of access to capital that is so essential, and in fact, 4 percent of the funding went to those in the manufacturing sector important to my area of the country, and so many areas of the country. It is otherwise a sector

of the economy that does not get help through the conventional lending process.

Mr. PRESTON. Certainly, the venture capital industry overall, Senator, is a critical source of capital in our economy and I think a very important drive for both job creation and in innovation, which was really birthed in our country. I also think that the SBIC program probably has enabled SBIC investors to stretch harder. I spoke with a number of people who are SBICs and I had a chance to chat with them to ask what impact this has on your ability to invest?

I know, as I am sure all of you have noticed and are concerned about, the degree of loses in the existing program and that is why there is a new proposal out there. My hope is as I dig into this, having a background in finance and specifically having a lot of exposure to the venture capital industry, I am hopeful that I will be able to bring some good thinking to that opportunity, but certainly I will need to spend time with you, your staff, and other people who are interested in advancing a new program to understand what your views are.

Senator SNOWE. I appreciate that and certainly we will be working with you on the dimension of the issues and concerns that have been raised here at the Committee today by myself and so many of the Committee Members. I know that you have had a number of letters of endorsement on behalf of your nomination and I will include those in the record.

Mr. PRESTON. Thank you.

Senator SNOWE. Also, your resume is indeed impressive and given your wide range of business experience, that certainly will serve to benefit the Small Business Administration at a crucial time and at a critical juncture in terms of the type of leadership advocacy that it requires and necessitates to bolster one of the most invaluable programs within our Federal Government in terms of producing benefits for the overall economy.

So, I appreciate your testimony here today and the record will remain open until Friday, June 23rd for any additional questions that may be presented to you and for any additional testimony and information to be submitted for the record. So with that, this hearing is adjourned.

Mr. PRESTON. Thank you.

[Whereupon, at 12:24 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

STATEMENT OF SENATOR GEORGE ALLEN
SMALL BUSINESS COMMITTEE HEARING
NOMINATION OF STEVEN C. PRESTON TO BE
ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION

- **Mr. Preston, let me join my colleagues on the Committee in welcoming you and your family here today. I have appreciated hearing your testimony about your background and why you feel you are qualified to be the Administrator of this important agency.**

- **And as we turn to the nomination of a new Administrator, I would like to take this opportunity to note for the record, the service of the outgoing Administrator, Hector Barreto and thank him for his service to the Agency. In my view, you have some big shoes to fill. I have appreciated his efforts to improve efficiency at the Small Business Administration (SBA) and I hope you will continue the mission of good stewardship of taxpayer dollars.**

- **Mr. Preston, you bring both exemplarily credentials and experience to this position. You are a graduate of Northwestern University and hold a MBA from the University of Chicago. Mr. Preston, you have also held senior leadership positions in Lehman Brothers and First Data Corporation. This wealth of finance experience will serve you well as you manage the $22 billion dollar loan program at SBA.**

- **As has been mentioned by other members of this Committee this morning, you have served as Executive Vice-President of ServiceMaster. And while this is not a Small Business, you have been tasked with overseeing, the many small franchises including Merry Maids, Terminix, and TruGreen ChemLawn that make-up ServiceMaster. I for one believe this background is very analogous to your new role at the Small Business Administration.**

- **The Small Business Administration has a total budget of $624 million employs of 3,000 people who ensure a vital marketplace for small businesses.**

- **In this new role, you will be serving as the watch-dog for the vital small business sector of the American economy. Small businesses account nearly three-quarters of all new jobs created and they generate about 50 percent of the nations Gross Domestic Product.**

- **In my view, the most important assets of the Small Business Administration, and one that you rarely see in government, is the interaction they have with stakeholders of this government, the people. Whether it be in the aftermath of a disaster or advice given to a start-up small businesses struggling to find its way in the marketplace.**

- **In 2003 Hurricane Isabel and again in 2004 with Hurricane Gaston, the SBA was out in Virginia working with their local affiliates to provide assistance to business owners so they could get back on their feet.**

- **While these storms were minor compared to the scope and magnitude of Hurricane Katrina, their impact on those who loose their businesses is the same. In both cases, people are looking for help and by creating partnerships with neighbors, people are more willing to ask those people for help.**

- **I am confident that the management skills that Mr. Preston developed throughout his distinguished career will serve him well in expanding this record of service at the SBA.**

- **Mr. Preston, you have received letters of endorsement from small business advocates such as the National Federation of Independent Business who stated "Steve Preston is a great choice to succeed Hector Barreto to head the Small Business Administration. He is a man who clearly understands the value of setting goals and achieving results in a large, complex organization, skills and knowledge that will serve him well at the SBA."**

- **The U.S. Chamber of Commerce went on to say, "[w]e applaud the nomination of Steve Preston to head the SBA and believe he is a perfect fit to serve the interests of the nation's 25 million Small Businesses.**

- **Again, thank you for appearing before the Committee today and I look forward to hearing your responses to the questions posed here today.**

Statement of Senator Mary L. Landrieu for the Nomination Hearing of Steven C. Preston to be Administrator of the U.S. Small Business Administration

Thank you, Madam Chair, for holding this hearing on this important nomination. And thank you Senator Durbin for your introduction of this nominee. I would also welcome Mr. Preston to this hearing today. I had the pleasure of meeting you in my office last week and I believe that you have the management experience to take on the challenges facing the Small Business Administration. More importantly, I was impressed with your passion to serve, and to take on this challenging position.

For too long this agency, which serves the backbone of our nation's economy, has been a second-class citizen in this Administration. The SBA enjoyed Cabinet-level status under President Clinton, but has since been downgraded to a second-tier agency. The SBA's budget has been cut by nearly 40 percent since 2001 – more than any other Federal agency. This sends the wrong signal to small businesses. It tells them that they are not worth the investment, that small businesses are not a national priority.

We need an SBA Administrator that is a "work horse" not a "show horse." Washington has plenty of show horses, but they should not be running Federal agencies. We have seen that in the Gulf and we don't want to see it again. I am willing to work with you to help the SBA be more effective and responsive in good times and bad.

One of the first challenges you will face, Mr. Preston, is to ensure that the SBA is ready for this year's hurricane season. Experts forecast that this will be a very active season and the SBA has to be ready. Last year, we had the sense that the agency was acting by the seat of their pants. Under the circumstances that is not so surprising. The country had never seen anything like Katrina before. But you and the SBA have the opportunity to take the lessons of last year to better prepared for this year.

The Emergency Supplemental Appropriations bill we most recently passed contains language that I sponsored to require SBA to submit a comprehensive disaster preparedness plan to Congress by July. SBA did not have one in place for Katrina so my colleagues and I want to ensure that they are more prepared for hurricane season this year and future disasters as well. I look forward to this report.

I mentioned that Mr. Preston's management experience will serve him well as he works to make the SBA a more efficient and responsive agency. Congress also needs to give SBA the tools to allow it to improve. After Katrina, small businesses in Louisiana had nothing but complaints about SBA's service in the Disaster Loan Program. They needed access to immediate capital to pay employees, restore inventory, and make quick repairs; but SBA said it was not in the business of short-term recovery.

The SBA had to hire thousands of temporary employees to process disaster loans after Katrina, but they did not even think to use their local field offices for this purpose until January.

I understand that the field offices eliminated a huge backlog in disaster home loans in a month's time. But why did SBA wait to use a resource that was already in-house?

I intend to introduce legislation that I would like to see included in the reauthorization bill to give the SBA more tools for handling future disasters. We need to give SBA expedited disaster loan authority for businesses in good standing with the SBA. We need to authorize short-term bridge loan and grant authority, so that in a major disaster, businesses can get help earlier, rather than later. SBA needs a full-time planning staff and we must encourage the agency to better utilize its district offices.

Before Katrina and Rita hit, there were more than 95,000 small businesses in Louisiana, employing about 850,000 people – more than half of my state's workforce. More than 81,000 of these businesses sustained damage in Katrina and 39,000 have yet to resume operations. The SBA helped many small businesses get started in Louisiana through its business loans and technical assistance programs. In the aftermath of Katrina, we need a strong SBA more than ever. In taking the helm, Mr. Preston, you will be a pivotal figure in the recovery of the Gulf Coast.

Closing

As Administrator, you will be inheriting an agency that by many accounts, has an unfortunate legacy of mismanagement, inefficiency, poor employee morale, and soured relations with Congress. The management challenges are huge, but the need to do it right is greater. I believe that in you we have a nominee who can use his corporate management and finance experience to fix SBA. I invite you to not be afraid to take on the old ways of doing things at SBA. If you run into roadblocks, come talk to us on this Committee. If you need a legislative change to move this agency forward, come to us. We want this agency to work. Our small businesses need this agency to work, and to work well.

I thank the Chair and ask that a copy of my full statement be included in the record.

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