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FULL COMMITTEE HEARING ON LEGISLATION TO PROVIDE FUNDING LEVELS

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FULL COMMITTEE HEARING ON LEGISLATION TO PROVIDE FUNDING LEVELS

Thursday, September 27, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 9:30 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez[Chairwoman of the Committee] Presiding.

Present: Representatives Velázquez, González, Cuellar, Ellsworth, Chabot, Bartlett, Akin, Fortenberry and Heller.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

ChairwomanVELÁZQUEZ. I now call this hearing to order to review legislation providing funding levels for programs within the Small Business Act.

As the American economy continues to evolve and change, so must our economic policies. This Committee has already taken steps to make certain that programs at the SBA are transformed to meet the needs of this Nation's 27 million small business owners. To this end, we have reported over a dozen bills that will provide technical assistance, access to capital and the overall tools for success.

The focus of today's hearing is to review legislation that provides the necessary authority and funding to implement this reform. It is one of the last pieces of the puzzle as Congress moves forward with implementing the first major reform to the SBA in a decade.

A major challenge for the SBA and its program has been meeting the growing demand for services. Nowhere has this been more evident than in the Entrepreneurial Development Program.

SBDCs and Women's Business Centers have played a vital role in helping small businesses where they have been faced with severe budget crunches. Over the last 5 years, many centers have seen the Administration cut their budgets by up to 20 percent. This is despite the fact that a $1 investment in SBDCs generates an estimated $3 in tax revenue. For this program to maintain experienced staff, they must have sufficient resources. This legislation will provide such funding.

A primary role of the SBA is to help entrepreneurs that have the drive but need assistance. The perfect example is the returning veteran who is prepared to start his or her own business venture. By funding the Office of Veterans Business Ownership, this can be

achieved. Veterans often bring a unique skill, but they, like other budding entrepreneurs, struggle in converting these dreams into a successful business.

It is also critical that small firms have the necessary access to capital. With a growing credit crunch, entrepreneurs are faced with few options when it comes to financing. The 7(a) and 504 loan programs have filled a critical void when capital is scarce. This legislation will ensure that the SBA loan programs will never have to shut down due to excess demand.

And while later today we will move a bill in the House that puts venture capital in the hands of small businesses, this bill will provide the authority to do so.

Micro lenders will also be able to continue serving entrepreneurs who will not have the opportunity otherwise. Considering that the default rate on micro loans continue to be at or near zero, it only makes sense to increase the authorization for this program.

Finally, it is important to know that this bill will increase funding for the HUBZone program. It may seem odd to do so, considering the Inspector General has deemed that the program is plagued by fraud. However, this money will provide the SBA with the ability to carry out the program the way it was intended.

I want to thank the SBA and stakeholders for coming here to discuss these programs and ways to improve them. An authorization bill expresses this Committee's intent on how the programs should be operated, but before making recommendations it is critical to seek the input of those who carry them out. For too long the Administration has either underfunded or underutilized initiatives that have successfully assisted small businesses. This has been an obstacle to their success. The legislation we are considering today changes that by enabling the SBA and its partners to provide the necessary capital and technical assistance. The Committee will use this hearing to make any changes so that the SBA can meet their client's needs.

I look forward to today's discussion and will yield to Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr.CHABOT. I would like to thank the chairwoman for holding this important hearing to address one of the more technical yet significant issues that this Committee must consider as it wraps up its efforts to examine and reauthorize the Small Business Act and the Small Business Investment Act in 1958. The major SBA financing programs—the 7(a) Guaranteed Loan Program, the Certified Development Loan Program and the Small Business Investment Company Program—operate without any appropriation at all. Even so, it is the responsibility of Congress to ensure that limits are imposed on the ability of the Small Business Administration to guarantee repayment of obligations authorized by banks and CDCs and SBICs. In doing so, Congress must balance the need to protect the full faith and credit of the United States with a need to ensure that the SBA has sufficient authority to meet the financing needs of a small business community.

In addition, there are two other major financing programs, the Microloan Program and the Surety Bond Program, that utilize

minimal levels of appropriations. Even with a need for an appropriation, these programs still operate through reliance on the full faith and credit of the United States. As a result, Congress must exercise its responsibility to ensure that the full faith and credit is used in a sensible manner.

Today, we also will hear about the needs of the Small Business Development Center Program. Even though the funding level for that program is determined in the appropriation process, the formula for the allocation of funds among the various grantees in the SBDC program is based in part on the levels authorized in the Small Business Act.

There are also a number of additional separate authorization levels that are scattered throughout the Small Business Act. In almost all cases the programs operate without regard to authorization levels, as long as there are funds appropriated for them. In addition, Section 20 of the Small Business Act contains a permanent authorization for all programs as long as funds are appropriated for the programs.

In my opinion, there is no absolute legal need to dictate authorization levels for programs that have permanent operating authority or whose operating funds derive from a salary and expenses account in the SBA appropriation. Even though there is no absolute legal need to undertake consideration of the myriad of these authorizations, I think the Committee can use this process for separate authorizations to provide an additional opinion to the appropriators on the importance and funding levels for various programs. The Committee already had one shot at that in the budget views and estimates letter. But this provides a second opportunity to express to the appropriators which programs should receive more funding than the requests submitted by the SBA.

Given the potential that this authorizing process may have for the Committee's oversight of the SBA and the information it can supply to the Committee on Appropriations, I believe that the process serves a valuable public policy goal, even though it does not constitute a strict legal necessity.

Again, I would like to thank Chairwoman Velázquez for holding this hearing and look forward to the ideas offered by our distinguished panelists; and I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Thank you.

ChairwomanVELÁZQUEZ. Our first witness is Ms. Jovita Carranza. Ms. Carranza is the Deputy Administer of the U.S. Business Administration. She helps to manage the agency's more than 80 field offices across the country, as well as a portfolio of direct and guaranteed business loans, venture capital investments and disaster loans worth almost $80 billion. Welcome.

STATEMENT OF THE HONORABLE JOVITA CARRANZA, DEPUTY ADMINISTRATOR, UNITED STATES SMALL BUSINESS ADMINISTRATION

Ms.CARRANZA. Good morning. Thank you, Chairwoman Velázquez and Ranking Member Chabot. Thank you for inviting me to testify on the proposed authorization levels for the Small Business Administration programs. I will separate my comments into

the three major program areas at SBA: credit programs, noncredit assistance programs and general authorizations.

The Administration has some concerns with the proposed authorization levels. The draft bill's authorization for the 504 program is consistent with the 2008 budget request. However, the 7(a) authorization of $20 billion is significantly higher than the 2008 budget request of $17.5 billion. We do not recommend a higher authorization at this time. In addition, the Administration does not support authorization of the participating securities program. SBA will carry out its commitment to the program but cannot justify any further authorization. Also, we do not believe a further authorization for DELTA loans is necessary. SBA has seen no demand for these loans in recent years.

We also have concerns about the authorization levels of noncredit technical assistance programs. SBA's budget submissions for these programs reflect our desire to make these programs more efficient so that SBA can increase the assistance we provide to small businesses. The draft legislation authorizes these programs at levels much higher than the 2008 budget and recent enacted amounts. In addition, while the Administration supports micro lending, we believe the $20 million authorization for PRIME is duplicative of the technical assistance already provided for prospective micro borrowers.

The Small Business Act contains several independent authorizations, as well as a general authorization of appropriation for SBA's operating budget. An example is the HUBZone program, the current HUBZone authorization of $10 million, which will double to $20 million in the draft bill. In the most recent appropriation, the program received a $2 million line item. However, SBA allocates resources of close to $9 million to the program. The disparity between the line item, the authorization and the allocation highlights the inconsistencies in our current budget process. The Administration recognizes that the Congress wishes, through line items and specific authorizations, to clarify its priorities and exercise its oversight function.

Unfortunately, the restrictive nature of line items can inhibit the flow of resources to program priorities rather than ensure them. As a result, the Administration's budget request has therefore often asked for the elimination of line item appropriations. I would like to point out that the 8(a) program has no specific authorization levels, just a permanent authorization. Yet SBA allocates resources of over $30 million to support the 8(a) program.

Finally, let me mention the programs that will cease without reauthorization; and those are the Coverdell Drug-Free Workplace Program, gift acceptance and cosponsorship authority for SBA outreach activities and the Advisory Committee on Veterans Affairs.

In addition, several other programs will no longer have authorization for appropriations: the HUBZone program, the Women's Business Center Program, Small Business Development Center, the National Women's Business Council.

Only the Drug-Free Workplace Program is not reauthorized. The Administration would like to express its support for the Drug-Free Workplace Program. It provides substance abuse training and as-

sistance for small business. All of these programs need congressional action to ensure their continued operation.

Chairwoman Velázquez, that concludes my testimony. I appreciate the opportunity to share the Administration's views, and I look forward to any questions that you may have.

ChairwomanVELÁZQUEZ. Thank you.

[The prepared statement of Ms. Carranza may be found in the Appendix on page 36.]

ChairwomanVELÁZQUEZ. Ms. Carranza, during last week's hearing I asked that the SBA perform on-site inspections of companies approved to the HUBZone program. This will ensure that businesses meet the requirements, and it will crack down on the fraud that the SBA's Inspector General has identified.

Your response to my question was that on-site reviews will require additional resources. Would you agree that an authorization of $20 million for the HUBZone program will provide the SBA with the resources to do on-site inspections?

Ms.CARRANZA. Congresswoman Velázquez, what I do recognize, as I stated in the testimony, that the line item does not allow us the flexibility to transfer the existing funds from program to program so that we can optimize not only the resources but from people to funds to be able to allocate the appropriate funds where we need it for program integrity program oversight and reform.

ChairwomanVELÁZQUEZ. How would you conduct on-site inspections in response to the General Inspector's finding?

Ms.CARRANZA. It would be not only through resource allocation but understanding the broad definition of HUBZone as well.

ChairwomanVELÁZQUEZ. So would you answer my question? Will $20 million be enough resources for you to conduct on-site inspections?

Ms.CARRANZA. I will not be in a position to address that because of the unknown, the number of resources that would be needed to perform those on-site.

ChairwomanVELÁZQUEZ. So would you then submit, prior to the markup of this legislation, a number telling us what will be the resources necessary to conduct on-site inspections?

Ms.CARRANZA. I will be glad to work with your staff on that particular request.

ChairwomanVELÁZQUEZ. In your testimony, the SBA requested to increasing the authorization levels for the 7(a) loan program. Given that the loan program operates at a zero subsidy rate, it is insignificant whether authorization levels are at $17.5 or $20 billion. So my question to you is, why does the Administration continue to halt reservations and allow the loan market to determine the loan amounts even if it will keep a zero subsidy framework in place? Would you agree that the increased unauthorization will do nothing but increase the costs for the Federal Government?

Ms.CARRANZA. Congresswoman Velázquez, I was writing when you mentioned the loan program. Can you please repeat the loan program?

ChairwomanVELÁZQUEZ. The 7(a) loan program, you know that is at a zero subsidy rate level.

Ms.CARRANZA. Yes, and with that the budget reflects the desire to provide a reasonable estimate to loan growth. At this point, we are managing the particular program with two factors at hand: contingent liability and the underwriting. We are, as you know, much like the Committee, stewards of the taxpayers' dollars.

ChairwomanVELÁZQUEZ. If you allow me, given the fact that it is at a zero subsidy rate, it means it doesn't cost any money to the Federal Government. So my question is, it is totally irrelevant, $17.5 million or $20 million, if you are making the argument that it costs more money to the taxpayers.

Ms.CARRANZA. For us to accept a $20 million without an experience or a trend of growth that would reflect the need for that, Congresswoman Velázquez, would be premature. We base the $17.5 based on what the current trends are in volume growth, and so we have an infrastructure that supports the particular budgetary request, or I should say the authorization request.

ChairwomanVELÁZQUEZ. Not based on testimony that was given to this Committee. And the fact of the matter is that what we see is an increase in volume in terms of applications submitted to get 7(a) loans, and so with this we will prevent another shutdown.

Ms.CARRANZA. We have not experienced any particular shutdown. And if I may ask, Chairwoman Velázquez, can you clarify on the shutdown? Are you talking about shutdown on the program?

ChairwomanVELÁZQUEZ. Well, you were not here. You were not at the SBA when this happened twice. It was under Hector Barreto. When he came here and he said he didn't need any more increase in the funding level, that it was enough, enough was that it wasn't enough. And then they had to shut down the program twice.

Let me ask you another question. In testimony before this Committee, the agency has promoted long-term counseling in the entrepreneurial development programs as a primary objective. Yet, due to budget cuts requested by the Administration, SBDCs have seen client hours decline for the first time in the history of the program. How can the agency submit proposals that continue to cut resources when this action has been found to be inconsistent with stated objectives?

Ms.CARRANZA. The technical assistance—and I can't answer for the decline in their particular technical assistance hours, but I do know that we have an expansive network to include SBDCs, Women's Business Centers, SCORE, the district offices that are offering technical assistance. So where I cannot speak to the reduction of technical assistance hours, I can speak to the network of available technical assistance.

ChairwomanVELÁZQUEZ. One thing is clear, the network cannot work without the money. The fact of the matter is that testimony given to this Committee showed that the hours of counseling has declined for the first time in 5 years. Would you agree that there is a correlation between the cut in funding and fewer client hours?

Ms.CARRANZA. I would have to perform a particular analysis to be accurate in that assessment. At this point, SBDCs and Women's Business Centers are increasingly, increasingly under pressure and are a vital part of the Administration's initiative; and we are seeking an increase in particular funding for our network because we

recognize not only their essential and vital importance in the growth of small businesses—

ChairwomanVELÁZQUEZ. Would you clarify that—

Ms.CARRANZA. Yes.

ChairwomanVELÁZQUEZ. —when you talk about the increase of funding?

Ms.CARRANZA. Yes. At this point, fiscal year 2008, we have $140 million that the Committee is requesting. Our request is $87.1; and we believe that the funding request ensures continued oversight of the SBDC grant process, as well as policy issues and an adherence to procedures.

ChairwomanVELÁZQUEZ. How would you qualify that as an increase compared to last year's budget request or compared to 2001?

Ms.CARRANZA. I misspoke on the increase in funding. It is for 2009, Congresswoman Velázquez.

ChairwomanVELÁZQUEZ. Now I recognize Mr. Chabot.

Mr.CHABOT. Thank you, Madam Chair.

Ms. Carranza, on the SBDCs, do they continue to seek funding from nonFederal sources as well as from the funding and could you discuss that a bit?

Ms.CARRANZA. Yes, Congressman Chabot.

Our objective on the network, the resource partners is not only to help them develop but also for them to develop sustainability and to pursue—I will give you an example in the Women's Business Centers—after 5 years, to pursue matching funding so that they are not strictly dependant on our particular grant system and we can allocate resources and expand the network to give opportunities to other centers.

Mr.CHABOT. Thank you.

Why do you think that there is such a disparity in the budget levels that are requested, say, by the Administration or by some on this Committee, what they believe is necessary, and what the Appropriations Committee may think is necessary and then what some in the private sector think is necessary? Why do you think there is so much—is there a disconnect or is it just a difference in opinion? What would you attribute that to?

Ms.CARRANZA. At this juncture, the new leadership in the agency, Congressman Chabot, we are addressing not only the efficiency of programs but the reform of the programs and the value proposition of the programs and oversight. While we believe, based on the changes that we are putting in, the retooling of the various programs and whatnot and the experience that we have had in the particular—whether it is loan programs, technical assistance, access to capital, we look at the current experience, the goals that we have set out, the progress we made in each area and the infrastructure, the current infrastructure in its current state that we have to support those programs.

So although the funding may—we recognize the need for additional funding. Should it be at the level that the Committee is proposing is one that is under evaluation. We believe we performed the full assessment of the need for each program addressing resources needs, oversight, again, a process of engineering. I can't emphasize enough that this new leadership in the agency is looking at both efficiency reform and oversight.

Mr.CHABOT. Thank you.

And, finally, in your written statement, you mention that the participating securities program has proven to be very costly, quite costly to the American taxpayer. Could you elaborate on that a little bit?

Ms.CARRANZA. Yes. There is a concern with regards to the majority ownership—excuse me, I'm sorry.

Mr.CHABOT. Sure. Take whatever time you need to discuss it; and if you would feel more comfortable getting back to us in writing on that, that would be agreeable to me.

Ms.CARRANZA. I do have knowledge on that. I'm sorry, Congressman. I will answer your question.

There is a couple of points that we need to consider in that particular program. If we have—and our objective in that particular program is to enable these companies to compete in the government contracting, for them to grow at a level of ability.

What we are talking about is the overcapacity of the particular firms and those particular firms overextending their leverage. And so, in addition to what we have identified as problematic, I would like to, again, take your recommendation to work with your staff to clarify the other dynamics that are playing out.

Mr.CHABOT. That will be fine. And we can elaborate a little more on the question, and if we can get it back in writing in the future that will be certainly acceptable.

I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Mr. González.

Mr.GONZÁLEZ. Thank you very much, Madam Chair.

I want to start off with my apologizes to the Chair, the ranking member and to other members of the Committee. I need to be getting over to a markup. I think I am already late, and my apologies to the witness.

But, Administrator Carranza, I guess I just kind of want a bird's eye view so that maybe the people that are interested in this process kind of understand the relationship between Congress and the White House. I truly believe when SBA individuals come up here regarding budgetary matters you are not given any latitude or flexibility. My understanding since I have gotten to Congress is the White House has a budget, and all departments and agencies are going to fit in that budget. Whether you agree with the final number or not, it doesn't matter. You are given marching orders, and I respect that. So Congress cannot take at face value what the White House has determined are the priorities on which tax monies will be invested. That is why we have the difference.

And I know that the ranking member indicated, well, why do we have this difference of opinion? Well, we go to our districts, we listen to our businessmen and women, we identify programs that we believe are important, that are underfunded, not utilized, underutilized, and that is the difference.

I understand. I mean, we have had Secretary Leavitt up here in the past couple of weeks saying, don't give me more money for HHS. We are happy with what we have got. Don't give us more on any of these particular programs. Because those were the marching orders from the White House. That is the way it really works. That is my understanding.

I guess if I had a question it would be, if you disagreed with the White House on the overall funding limits that have been requested at the SBA—because I know that you are given a number, that is just the way the real world works—would you be able to come before us and express a difference of opinion than the bottom line that the White House has established for the SBA?

Ms.CARRANZA. Yes, I believe there has been a track record with the administrator that has proposed an increase in the budget from previous years and has challenged some of the perspectives. And we have been able to achieve a level of budget allocation for either necessary resources, automation, et cetera; and we are in a position to do that as well this year.

Mr.GONZÁLEZ. That would increase the overall target monies that have been basically allocated by the White House for the SBA. I understand you can say we think this program needs more money, but we will take it from this other program that you guys in Congress are willing to bump up. I am talking about the overall ceiling, the amount that the White House has said, this is SBA's budget, this is what—you are not going to go over it. You can play around with the numbers, reallocate them on programs, but you are not going to go beyond.

And then in your determination you try to do that, but you can't. So now you come before Congress, you come before this Committee and you say, we are going to go over and above the overall amount that has been allocated or identified or targeted by the White House in their budget to Congress.

Could you and would you do that?

Ms.CARRANZA. As an advocate of small businesses as well as a fiduciary responsibility to the taxpayers, we will make the necessary recommendations to continue the viability of SBA and take the position of addressing the particular needs of SBA. We would take that position.

Mr.GONZÁLEZ. All right. And it is a good answer, but I am not sure.

I just want to know—and I am so sorry that you are the one I have to pose this question to. But let us just say you have a dollar budget. The White House says you cannot spend more than $1. Within that $1 you can shift around priorities. Then Congress comes and says, well, we think it should be $1.20. Because we go back home, we are the representatives of the people, and we should have something to say about our business businesses, right.

And then you say, do you know what, Congress is not so wrong. I am going to ask for another dime, $1.10. So you would come and testify that you are basically going to bust your budget, the White House budget by asking for another 10 percent, another dime. Would you do that?

Ms.CARRANZA. I believe that the Administration is very committed—once again, I have to reiterate—to the growth of the small business community as well as a responsibility to the taxpayer. As it relates to my responsibility as COO deputy, I would look for opportunities where I could work within the budget allocated so that no one program is compromised and we would meet the needs of our small business community.

Mr.GONZÁLEZ. And I know that my time is up.

I appreciate the position you are in. People get appointed within administrations for reasons, and I think they are basically told the parameters of their operation. But the answer to my question is we are not going to get a White House official that is going to come from a department or an agency that is going to contradict the bottom line of the White House. And the answer to all this is a matter of priorities. If the White House believes SBA is a priority, then there will be some funding. We disagree that the White House believes it is truly a priority.

And, with that, I would yield back.

ChairwomanVELÁZQUEZ. Thank you, Mr. González.

I just wish to remind you that a former colleague of ours was the Secretary of the Army and came before Congress and testified in the Senate that the budget wasn't sufficient. So what happened to him? He was fired.

Next, Mr. Bartlett.

Mr.BARTLETT. Thank you very much.

Welcome to the Committee.

Following up on Mr. González's line of questioning, I serve on the Armed Services Committee. What we do there to determine what might be done with additional money is simply to ask the services to give us an unfunded priorities list. If you had more money, what would you use it for? They, like you, are constrained to a budget which is given to them, but there are always needs beyond the budget, and they help us determine what really the allocation ought to be with this unfunded priorities list.

If we asked you for an unfunded priorities list, if you had more money, what would you do with it, could you give us that list?

Ms.CARRANZA. Yes, I could give you that list, which would incorporate, again, program viability, the assessments of a program, expand our outreach programs and initiatives, develop further the skills of our employees. Because there is a lot of training that still needs to take place. So it is about resource development, program viability and expanding the outreach programs.

Mr.BARTLETT. Madam Chair, I would suggest that we might get around this problem we have with the people from the agencies being constrained to defend a budget given to them by the Administration by asking them for their unfunded priorities list; and that will tell us what they think is the most important thing that they would spend money for if they had additional money. This doesn't violate their commitment to toe the party line, but it does give us the information we need in deciding how much additional monies they ought to get.

Might I ask you, what do you think is the major factor inhibiting the growth of small businesses in our country? If there was one thing that you could change that would facilitate the growth of small businesses in our country, what would it be?

Ms.CARRANZA. That same question was asked several times, Congressman, when I either interviewed or whatever in public venues. That is strictly my current assignment as a public servant. And the question was about education, accessibility to information, resource development. The inhibiting is not so much outlets, because we have over 1,400 outlets. We have thousands of SCORE members. So it is not about personnel out in the field. It is more about out-

reach programs, viable ones, connectivity to the communities and educating, strategic education and accessibility to information, access to funds.

I believe the Administration has done exceptionally well in the sense that we now have Lender Advisory Councils, we have Trade Association Councils. So our collaboration has expanded. We have a unified front in helping out the small business community, and I believe it is doing more of what we have in place now.

Mr.BARTLETT. Madam Chair, those small businesses that have capabilities that are of interest to our military, where most of our subcontracting is done, face an intimidating bureaucracy. And I think for those small businesses, many of whom have really great ideas that would benefit our military, if we could just do something to make this red tape bureaucracy less intimidating.

Our office tries very hard to do that. We hold procurement seminars. We have the government agencies come out and meet with our small business people. The last time we did this we had over 500 small businesses who were there. But many of them have ideas that we really need in our government. But they are just intimidated by the huge bureaucracy, and what they need is hand-holding. I think the Small Business Administration is in a particularly favorable position to help them do that.

By the way, in a former life I was a small business person working for the government. I also worked for the government in writing requests for proposals, and then I was in the small business world responding to those requests for proposals. So I have been on both sides of that street, and I understand the problems that are there.

Thank you very much for your testimony, and I yield back.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Fortenberry.

Mr.FORTENBERRY. Thank you, Madam Chair, for holding this hearing.

This is a little bit beyond the scope of what the purpose of the hearing today is, but it is related to Congressman Bartlett's question as well. I think we have to continually ask ourselves that question, because you have one of the most important jobs in government. I know you recognize that. Obviously, you spend yourself because—on this form of public service you believe in it.

This is where most people are working to try to get a little bit ahead in life in small business, and the more that we can augment opportunities in the private sector for risk-taking and entrepreneurial risk-taking, small business ventures, the more we are going to provide one critical function of government and that is creating a society that provides more hope and more opportunity for people to take care of themselves and their families.

I have given this speech before. Ms. Velázquez has heard it. But I think this is important. It is absolutely essential work. So the question as to what barriers are out there is an essential one.

We tend to define—we tend to have several premises, though, at work to answer that question at all times. Is it access to capital? Well, we are doing a lot in that regard. Is it access to information? You just gave an overview, a good overview of your collaboration with the private sector, the volunteer forces out there, who can as-

sist in helping that discernment process and education process for somebody who is willing to take this kind of risk.

Is it a question of connectivity? That is a good one. That is stepping beyond the traditional premises by which we generally approach the question as to why somebody would want to take the risk and how do we encourage that. But are there other considerations? Are there other tax policies at work here that potentially inhibit? Do we have tax codes favoring larger types of structures that compel people to work for an entity versus to try to be that entity themselves?

Do healthcare policies inhibit entrepreneurial risk-taking? In other words, if I am tethered—if I have got a vision, I have got the risk capital, and I have got the will to undertake a new venture, but I am tethered to what I am doing because I need the healthcare policy, is that a significant economic drain in terms of potential productivity on our society because either we are not allowing portability of a catastrophic policy or we are not emphasizing health savings accounts enough that would again empower?

These are the broadening, I think, of the framework by which we ask ourselves how do we improve what we are doing, which I think is good and substantial, but continue to do self-evaluation in terms of public policy as to how we augment these efforts.

So there is a lot there to unpack, I know, and that is a nice speech. But I think it is a—or hope it is a nice speech. I think it is a challenge to all of us to think creatively about that central core question: What are the inhibiting barriers to entry in terms of small business entrepreneurial risk-taking? Do they fall outside sometimes the traditional parameters which we put out around the question, which is basically access to market information and capital?

Ms.CARRANZA. Let me answer that question three-fold, Congressman, as you delineated.

Healthcare, and I will say healthcare through education, when we meet with the trade associations as well as small business community, because we do perform numerous listening tours where we meet with small businesses, and the barriers are cost, cost of their infrastructure healthcare, cost to having to manage, when you mention barriers, are very cumbersome, complicated administrative requirements to apply.

So you have healthcare, you have ease of use to our particular programs, both for the private sector as well as the public, private and public. And then you have taxes. So when we speak with tax structure, should they be taxed, as you mentioned, at the same level as large entities, large firms? So the resounding message that the small business community will ask us to support and have a voice is in those three areas.

Can you make it easier dealing with government? Let us talk about taxes. You have a couple of associations here that will talk to that. And healthcare, if there is anything you can do to advocate cost-effective or affordable healthcare.

So it is very consistent and we need to unify in order to be much more responsive to the small business community, especially the micro loan level.

Mr.FORTENBERRY. Sure. Madam Chair, if you could indulge me a moment more for a little more dialogue. Do I have the time?

ChairwomanVELÁZQUEZ. Yes.

Mr.FORTENBERRY. Thank you.

Here is another one, and it is a smaller component of overall tax policy. But when you look at again lowering the barriers to entry and empowering risk-taking, for instance, you have got a number of persons interested in developing home-based business ideas, yet you have tax policies that aren't necessarily favorable toward that or are more stringent or potentially penalized versus other—it is just an opportunity. I think we potentially have to look at one area of the code.

I appreciate what you are saying, that we in this dialogue have identified a couple of key pieces that fall outside of those barriers—of those traditional barriers such as healthcare and regulation.

I will just give you a small story. A number of years ago, my family was in a partnership to look at buying a small business and then potentially expanding it. The threat of having to fill out the paperwork and the divulgence of information that was so expansive compelled us to just go elsewhere. And we were able to do that. Maybe many people aren't.

So I think that is a good point you make as well. How do we decrease the complexities of compliance?

And so, anyway, I appreciate your willingness to engage in this dialogue about creative thinking to overcome to what we don't traditionally consider barriers. Thank you.

ChairwomanVELÁZQUEZ. Ms. Carranza, I want to ask the final question. Every time that we have conducted hearings, we bring the experts to testify. Time and time again, they tell us that training and technical assistance improves the chances of a business to succeed; and the data is there that shows that a person who received technical assistance and training has a better chance to succeed in their businesses. Yet many socially and economically disadvantaged individuals lack access to general business training, networks and capital. Since these resources continue to be lacking in the private sector, why has the agency requested to fund the PRIME and micro loan programs well below the congressionally authorized levels?

Ms.CARRANZA. PRIME, as well as resource partners that offer the technical assistance, I need to share with you, Congresswoman Velázquez, that today's training material, it continues to be enhanced. And I will give you an example to expound on the point of not only variability to technical assistance but also the type of information that is being shared.

We have not only on-site hand-holding—as one of the congressmen mentioned—type training, but we also have another program that is funded, which is called the 7(j) training, which is contracted training in order to help develop small companies to prepare them for government contracting.

With regards to the hand-holding-type training, on-site training, resource-partner training, each one of those various programs are funded in their own capacity. But, in addition to that, sophisticated type of training that we are offering, virtual training and bilingual training.

ChairwomanVELÁZQUEZ. You just said it, sophisticated. And what is the type of constituents that we are talking here about? Who are the ones that really needs the type of technical assistance that can not be received from a 7(j) or any of the other programs? These are economically and socially disadvantaged. They need special, unique, tailored technical assistance for this population in order for them to be prepared and ready.

Ms.CARRANZA. The position that I would take is, Congresswoman Velázquez, is PRIME going to meet the needs or is there another assessment of training mechanisms that are in place that need to be? To your concern, and I agree 100 percent, sophistication means a matter of just having a more robust training material, not a higher level of technical content, but it is more about meeting or designing training material that would meet the needs of the, as you indicated, the underserved market client. But we believe that there is about 12 programs that are offering technical assistance. We need to be better prepared to assess what is out there being provided, not about spending more, but actually rationalizing and assessing the value proposition of what is already in place as it relates to the budgeting of various training programs.

ChairwomanVELÁZQUEZ. Time and time again, you know, you show the disconnect between the agency and the real needs of a special population that cannot be served through any of the other programs that you have in place—

Ms.CARRANZA. Congresswoman Velázquez—

ChairwomanVELÁZQUEZ. —in the whole world. And we brought experts here who did so much work on micro loans. India, China, South America, they have micro loans and technical assistance; and it is working. They are working in those areas. Why can't we? If the entire world is doing it and it is good for them and it is proven to work, why can it not work here?

Ms.CARRANZA. Congresswoman Velázquez, I bring a sensitivity to this role. I have had a mother who only had second grade education, so I fully understand the need for special attention and special focus for an underserved market. So please accept the fact that we are analyzing and recognizing the need that a particular populous needs as far as technical assistance.

ChairwomanVELÁZQUEZ. So you are going to agree with us that there has to be a need to increase the authorization levels for micro loans and PRIME.

Mr. Akin, do you have any questions?

Mr.AKIN. No thank you.

ChairwomanVELÁZQUEZ. The gentlelady is excused. Thank you very much.

Let us move to the second panel: Mr. Kelly, Crawford, Keenan and Kuczarski.

ChairwomanVELÁZQUEZ. Our first witness is Mr. Kevin Kelly. Mr. Kelly is the Managing Director for Policy and Advocacy at the Association for Enterprise Opportunity. The Association for Enterprise Opportunity is the national organization that represents local micro enterprise development organizations throughout the United States.

Mr. Kelly, thank you. You have 5 minutes to make your presentation.

STATEMENT OF KEVIN KELLY, MANAGING DIRECTOR FOR POLICY AND ADVOCACY, ASSOCIATION FOR ENTERPRISE OPPORTUNITY

Mr.KELLY. Thank you, Chairwoman Velázquez.

I am happy to be here today to talk about three different programs at the Small Business Administration that affect micro enterprise development organizations and micro entrepreneurs around the country. These three are the Women's Business Program, PRIME and the SBA Microloan Program.

Specifically, what we are recommending for authorization levels for the Microloan Program is two components, the lending component and a technical assistance component. The lending component we are recommending for fiscal year 2008 an authorization of $110 million and for fiscal year 2009 $120. For the technical assistance component, we are recommending at fiscal year 2008 an authorization of $80 million and for 2009 of $90 million. The PRIME program for both 2008 and 2009 are recommending the same amounts, an authorization level of $20 million. For the Women's Business Centers program in fiscal year 2008, we are recommending an authorization of $17 million and in 2009 $17.5 million.

These three programs are the bread and butter, so to speak, of the micro enterprise development field here in the United States. There are some other Federal programs that can be used for micro enterprise development. However, they are not specifically set up for that purpose alone; and micro enterprise groups compete with a lot of other different kinds of activities. It is sometimes hard to get information about how much of those dollars really go to micro enterprise groups and SBDC and some of the other programs. So these three are really of most critical concern to our constituency.

Just to give you some numbers, the Microloan Program, which is the single largest dedicated source of Federal dollars for micro enterprise in the U.S., since 1992 has made over 26,000 micro loans totaling over $318 million. This has primarily gone to women, minority and low-income entrepreneurs around the country. It is a very cost effective program. There is close to zero percent default rate on the lending portion of it, and the training and technical assistance has been very important in keeping up that very low default rate.

Another point to make is, on the lending portion, the authorization that we are asking for is not in actual dollars, it is a lending authority. Because money is being paid back from previous loans, there is money coming back into this; and so it is a slightly different number. It is a much lower appropriations level, as opposed to the level that I am asking for the lending authority itself.

What we are trying to do with our recommendation is get this program back up to what it once was before. In the last 6 years, it has been cut year by year; and now we are at a much lower rate. We want to get it back up to where it was before, which is similar to what we are asking for the other programs.

With PRIME, it is a program that is set up really specifically for two things. It provides dollars for micro enterprises that do not need loan capital. They only need technical assistance and training. They are not yet ready for loan money or perhaps have a business

that doesn't need a lot of loan capital and they don't need that right now.

It is also focused more on low-income people. There is a requirement that 50 percent of all the grant award goes to help low-income entrepreneurs. These make it unique.

This is a program that was requested actually by groups in the field, because a lot of them do not do lending. That is one thing that is a little bit different here.

I know that a lot of people on the Committee are familiar with the Grameen Bank model, which is a lending model. In the U.S., about half the groups are doing that and about another half are not doing loans. They are only doing technical assistance and training. So a program like a Microloan Program doesn't meet their needs. They are not able to actually accept it, because they are not doing any lending. So the situation here in our country is a little bit different. Plus, for this program, what I mentioned about the focus on low-income people is different than other programs at SBA.

Again, we want to get this back up to what it once was. When it was first passed, it was a $15 million national program. It has been cut down to currently $2 million, and we want to get it back up to what it was before.

The Women's Business Centers program is the third one that we are supporting. Close to 200,000 women were counseled and trained last year alone for this program, and it meets the unique needs of women entrepreneurs, and it is one that we would support. Again, we are asking for $17 million for 2008 and $17.5 million for 2009, and those are slight increases from what they have received. Altogether, these three programs, by giving higher authorization levels, we will be able to create more jobs and support more micro enterprise development efforts around the country. Our country would benefit through more tax dollars and more people employed.

I salute your efforts for looking at the authorization levels and trying to increase them and to make recommendations to the appropriators. I appreciate the opportunity to testify today. Thank you.

ChairwomanVELÁZQUEZ. Thank you, Mr. Kelly.

[The prepared statement of Mr. Kelly may be found in the Appendix on page 39.]

ChairwomanVELÁZQUEZ. Our second witness is Mr. Don Kuczarski. He is the Senior Vice President of Business Banking for Greylock Federal Credit Union in Pittsfield, Massachusetts. He is testifying on behalf of the Credit Union National Association. CUNA represents over 90 percent of all State and Federal credit unions in the United States.

Welcome.

STATEMENT OF DON KUCZARSKI, SENIOR VICE PRESIDENT OF BUSINESS BANKING, GREYLOCK FEDERAL CREDIT UNION, PITTSFIELD, MASSACHUSETTS, ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION

Mr.KUCZARSKI. Thank you. Good morning, Chairwoman Velázquez, Ranking Member Chabot and other members of the

Small Business Committee. I am Donald Kuczarski, Senior Vice President of Business Banking at Greylock Federal Credit Union in Pittsfield, Massachusetts. I appreciate this opportunity to appear before the Committee on behalf of the Credit Union National Association and to express our support for maximum funding levels of the Small Business Administration 7(a) Loan Guaranty Program. CUNA is the Nation's largest credit union advocacy organization, representing over 90 percent of our Nation's approximately 800 State and Federal credit unions, their State credit union leagues and their 89 million members.

Greylock is the leading mortgage and auto lender in Berkshire Country. It has also become a leading lender for small businesses, thanks in large part to the SBA's 7(a) lending program.

Chairwoman Velázquez, I am honored to be here to speak to you about the positive impact that SBA lending offers to our local economy, to our credit union and, most importantly, to our members. Your leadership and efforts to encourage credit unions to participate in SBA programs is greatly appreciated, and we thank you for introducing the Credit Union Small Business Lending Act. We truly value our partnership with the SBA that has helped so many small business owners and contributed to an economic turnaround in western Massachusetts.

While we offer all the services typically found in a commercial banking operation, we focus on small businesses with business loan requests between $10,000 and $200,000. Many of these loans, due to their higher risk profile, would not have been made without the assistance of the SBA. They were ineligible for conventional financing due to minimal management experience, sufficient collateral or the business had a limited track record.

As a community based credit union, Greylock has always taken pride in giving auto loans and mortgages to members who were unable obtain conventional financing. With the help of the SBA, Greylock has been able to extend that philosophy by injecting over $11 million into the local economy.

Thanks to the SBA program we can offer financing at reasonable rates to small companies that do not fit the standard underwriting criteria.

Let me give you an example: A local family sought to purchase and expand a bakery business. The collateral associated with this loan would have been inadequate for Greylock to help them. But through the SBA program we created the financing they needed, and the small business is now growing rapidly into a regional wholesaler. The business deserved to be financed; and, thanks to the SBA, Greylock Federal Credit Union was able to help them get started.

Small businesses are the lifeblood of the economy in our hometown region, and Greylock is the leading source for small business financing thanks to SBA. We would appreciate your help in making sure that flow of financing continues. As you know, credit unions have a cap on the amount of commercial lending they can engage in. We are currently limited to 12-1/4 percent of assets; and, from our experience, the cap is artificial and far too restrictive. Less than 8 years into our commercial lending and after only 5 years

with SBA lending, we will soon hit the cap and have to limit future loans to businesses in Berkshire County.

Strictly speaking, SBA loans do not count toward the cap. Currently, only the guaranteed portion of a loan is excluded. However, these loans often evolve into conventional loans, so the cap hamstrings us, thus taking away the flexibility that has been the key to our success. Chairwoman Velázquez, your legislation, the Credit Union Small Business Lending Act, will expand the member business lending cap by exempting the entire loan amount from the cap, providing credit unions with additional capacity to make nonSBA business loans.

Mr.KUCZARSKI. There is also a provision in the Credit Union Regulatory Improvements Act, H.R. 1537, that would increase the MBL cap from 12 and a quarter percent to 20 percent of assets. Not only would this provide relief to credit unions already offering member business lending, but also make it feasible for other credit unions to incur the expenses in establishing business lending programs and allow many more local businesses to have the benefits of increased lending options.

CUNA is hopeful that credit union participation with SBA's 7(a) program will continue to grow. However, credit unions will have a difficult time when faced with the current road blocks of increased fees and inadequate funding of SBA's programs. By definition, these loans are going to small and start-up businesses, and increased fees can really hurt them when they are managing very tight margins and cash flows.

For example, we recently provided financing to a payroll company for the acquisition of a competitor. Our member had to pay an $8,200 fee to SBA for a $34,000 loan.

Again, thank you for the opportunity for us to share our thoughts on sustaining and improving the 7(a) program. It means a lot to our credit union and to the small businesses we serve in Berkshire County. I'd be happy to answer any questions.

[The prepared statement of Mr. Kuczarski may be found in the Appendix on page 43.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Kuczarski.

Our next witness is Jody Keenan. Ms. Keenan is the State director for the Virginia Small Business Development Centers. She was recently elected, congratulations, as chair of the Board of Directors for the Association of Small Business Development Centers whose members make up the 63 State, regional and territorial SBDC programs that serve all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa, welcome.

STATEMENT OF JODY KEENAN, STATE DIRECTOR, VIRGINIA SMALL BUSINESS DEVELOPMENT CENTERS, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Ms.KEENAN. Thank you very much. Good morning, Chairwoman Velázquez, Ranking Member Chabot and members of the committee. I appreciate your invitation to present ASBDC's views concerning authorized funding levels for our Nation's Small Business Development Center Network. And I want to thank you on behalf of ASBDC and the dedicated men and women who are part of the

SBDC network for your unwavering support. You have been true champions of small businesses and the small business development centers that serve them.

Chair Velázquez, I want to personally thank you for your leadership and your work to help secure desperately needed funding for the SBDC program. Thanks to your efforts and the support of the Budget and Appropriations Committees, the House Financial Services appropriations bill contains a much needed increase in funding for the SBDC network. Thank you.

SBDC is a vital resource for America's small businesses. As you know, the fastest area of entrepreneurial growth is among women and minorities, an area where SBDC have a great deal of experience, expertise and success. More than 40 percent of our clients are women; 31 percent are minorities; and 10 percent of our counseling clients are veterans.

In 2006, the SBDC network helped in-depth clients, those who received five or more hours of SBDC consulting during the year, to create 67,000 new full time jobs, save an additional 76,000 jobs, and generate 201 million in new Federal revenue as a result of economic growth.

SBDCs help Americans start and grow their own businesses, create jobs, grow our economy and strengthen the fabric of society. And we do all of that while generating more tax revenue than it costs taxpayers to fund the SBDC program.

I believe a government program with this kind of result deserves the investment of Federal resources. However, the SBDC network today receives less Federal funding than it did in 2001, even without accounting for inflation. With inflation, the average state will receive approximately 19 percent less Federal funding in 2008 than in 2001 unless our Federal funding is increased.

SBDCs are closing and cutting back on services across the Nation. We were able to provide business consulting to 28 percent fewer small business owners in 2006 than we were able to serve just 2 years earlier. And we provided 24 percent fewer business consulting hours in 2006 than just 3 years prior.

For all of these reasons, the ASBDC respectfully asks the committee to increase the SBDC reauthorization to $140 million in fiscal year 2008 and $145 million in fiscal year 2009. These levels of authorized funding will allow the SBDC network to recover from declining real Federal funding, to meet the growing demand for SBDC services and to increase business and job correction. In addition, these increased authorization levels will once again indicate to the Budget and Appropriations Committees the strong support of the Small Business Committee for the network of America's SBDC.

Madam Chair and Ranking Member Chabot, we also ask for your continued support to ensure core funding for the SBDC network is restored. The ASBDC shares the committee's strong interest in increased efforts to address special needs in the business community. While our association has been concerned that new GRANT programs could adversely impact funding that is distributed to State networks based on population, we sincerely appreciate the reassurance of committee staff that core funding will be restored before new grant programs are funded. And we ask that the conference

reports on the bills creating new grant programs include language to that effect.

Finally, Madam Chair and Ranking Member Chabot, the SBDC network deeply appreciates the operational changes the committee included in the SBA Entrepreneurial Development Programs Act of 2007. These changes, such as strengthening privacy protection for SBDC clients, will greatly enhance the network's ability to serve the small business community and aspiring small business owners.

Chair Velázquez, Ranking Member Chabot and members of the committee, thank you again for all you have you done to ensure that small businesses, aspiring entrepreneurs and the SBDCs that serve them have the resources they need. I appreciate your willingness to consider our views.

[The prepared statement of Ms. Keenan may be found in the Appendix on page 47.]

ChairwomanVELÁZQUEZ. Thank you, Ms. Keenan.

Our next witness is Mr. Chris Crawford, is the president and CEO of the National Association of Development Companies. NADCO provides legislative and regulatory support for the 504 program on behalf of member certified development companies and other program affiliates.

Welcome, sir.

STATEMENT OF CHRIS CRAWFORD, PRESIDENT AND CEO, NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES

Mr.CRAWFORD. Thank you, Madam Chair. And thank you for the opportunity to provide input to your consideration for fiscal year 2008 and 2009's authorization ceilings. I would also like to thank the committee and the House of Representatives for its passage of H.R. 1332 earlier this year. This is a bill that contains many, many enhancements for the 504 program that will greatly assist America's small businesses when it becomes law.

First, the fiscal year 2008 authorization, the administration has requested only $7.5 billion for the 504 program for fiscal year 2008. NADCO recommends that the committee seek a minimum of $8.5 billion for the program ceiling for 2008, and I understand that you are supportive of this amount.

The 504 has been at zero subsidy since 1997 and has grown at an average annual rate of 27 percent since that year while costing taxpayers absolutely nothing. Our growth rate just for the past 5 years has exceeded 16 percent. While this growth rate would indicate a demand for fiscal year 2008 of just under $8 billion, we are very concerned about the impact of a slowing economy in the coming several years. As our economy slows, traditional small business lenders will almost certainly tighten credit. Recent history demonstrates that banks generally demand higher down payments, shorter loan terms and increased interest rates of small business borrowers during economic turndowns or recessions.

Further, banks frequently turn to credit enhancement programs such as the 504 program to decrease their risk of loss for small business loans. If such a downturn does occur, and many economists are certainly forecasting that, demand for the 504 program will certainly increase. And our history of the past 22 years during

downturns and recessions demonstrates that we will see greater, more rapid growth.

NADCO believes that authorizing a ceiling of anything less than $8.5 billion will greatly increase the risk of forcing SBA to move to a credit and restriction plan, which would cut off small businesses from much needed capital to create jobs.

On to fiscal year 2009, the administration has requested only $8 billion for fiscal year 2009 for 504. As the economy slows in 2008, NADCO is concerned this will continue into 2009. Thus it will be imperative that 504 not be restricted in its provision of long-term, reasonably priced credit to small businesses during the span of this committee's reauthorization of the program. We urge the committee to provide a minimum of $9 billion in authority, and I understand that you all support this level also.

Again, NADCO is pleased that the House has passed H.R. 1332. This is a bill we consider critical to enhancing the 504 program for small businesses. We hope that the committee will work with the Senate Small Business Committee to craft a final bill containing the many benefits of your and that body's legislation during the final months of this congressional session. We also hope to the committee will seek the authorization levels I have expressed in this testimony.

Thank you very much.

[The prepared statement of Mr. Crawford may be found in the Appendix on page 50.]

ChairwomanVELÁZQUEZ. Thank you. Thank you all for your testimony here this morning.

I just would like to address one of the issues, Ms. Keenan, that you raised, and that is, are you concerned about core funding? And I want you to know that I, too, share your concern, and that is why—and one of the reasons why we included language in the bill that passed the House which states that any SBDC grant program funding should not come from this core funding.

Can you talk to us about what an additional 20 percent in funding will mean for the average center and the businesses they serve?

Ms.KEENAN. Well, it will certainly be a communication to our local funding partners that our Federal partner is at the table with us. It will also allow us to shore up our resources and reach more businesses to help them create more jobs and create more wealth in the local community.

ChairwomanVELÁZQUEZ. Mr. Kuczarski, one of the goals of today's hearing and the legislation under consideration is to increase access to capital for small businesses. Unfortunately, many of the requirements set by the SBA for making 7(a) loans are too burdensome for many small credit unions.

Is it possible that in using alternative size standards, more credit unions will participate in the 7(a) loan program and we could increase the overall—and if you do that, that will help increase the volume of loans throughout that program?

Mr.KUCZARSKI. Thank you. I agree that whatever we can do to increase the size limits and make more businesses eligible on behalf of the SBA program would be beneficial to our local economy

and to the country to grow our businesses and the entrepreneurial spirit of our country.

May I comment on the SBDC? I agree that the SBDC is an excellent program.

ChairwomanVELÁZQUEZ. Uh-huh.

Mr.KUCZARSKI. And our association and our partnership with the SBDC is fabulous. It has a great benefit to our SBA members who go to the SBDC to get information and training to make sure that they are successful businesses. So, I agree, I do support the increase.

ChairwomanVELÁZQUEZ. You spoke about the preferred lender program in your testimony, and it has been difficult for many credit unions to become preferred lenders in the 7(a) program due to the stringent requirements by the SBA.

What do you think could be done within the administration to make it easier for credit unions, like yourself, to obtain this type of lending accreditation?

Mr.KUCZARSKI. We were approved to be a preferred lender to the SBA. After being in SBA lending for a few years, we looked at our experience and the quality of our lending prior to giving us that designation. What could have sped the process up would have been the—looking at the experience of the lenders that we had within the credit union, because our lenders had previous SBA lending experience.

With the PLP program, we are capable of turning around loans much quicker, and it makes it much more flexible in granting SBA loans to our businesses.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Crawford, you mentioned when you talked to us about the increasing lending activity among your members when there is a downturn in the credit cycle, and obviously with the subprime market and other economic factors, there is concern that this situation could occur.

Can you talk about how your program can ensure available capital during this period and why an appropriate authorization level is necessary to ensure the program can perform this role?

Mr.CRAWFORD. Yes, thank you very much. Well, I am certainly hopeful, I followed—as a homeowner, I followed the subprime lending debacle, and am certainly hopefully that we are not going to see it bleed over in our portfolio. Right now, our portfolio, all indications from the agency are it is performing extremely well. Our experience, as I talk to members, because I have asked this question of them, are we going to have a problem with portfolio performance? Our experience seems to be, and this is true from my own personal experience, a former small business owner, that small business owners will generally bend over backwards to make their loan payments on their businesses, because if they lose their businesses and their business location, they lose their livelihood. Whereas if they lose their house, they move to another house. It is tough, but they don't lose their income. So our experience has been that the subprime lending may well not bleed over into our portfolio performance.

I believe that banks, as they tighten the screws, as I talked about, I think they will turn more and more to 504 as a credit en-

hancement vehicle, and we already see that happening. Our loan volume this year is up 11 percent. And I expect that rate of increase to increase as it has been doing over the past 4 months.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Kelly, you were here and you saw my exchange with Ms. Carranza regarding PRIME on the microloan and the technical assistance aspect of both programs. We know and you know because surveys of microenterprises reveal that many entrepreneurs or potential entrepreneurs seek training before even applying for a loan.

Do you think that one of the biggest obstacles that small businesses face in this Nation is lack of access to capital? And when a bank knows that a person who is applying for a loan has received a type of technical assistance, do you think that would be an incentive for those banks to make those loans?

Mr.KELLY. Yes, I do believe that. The main issue I think for the folks that our members help is training technical assistance. They need to have that when they get a loan, and for those that are not ready for a loan, that is their primary need.

I would like to point out also that in the microloan program on point, there is a program that was within there for nonlending groups to get money through their program. They then use that to do training and technical assistance, the groups then went to banks, CDFIs and other financial institutions at the local level and obtained the loan. So the reason that those financial institutions gave them the loans was precisely because they did have that training of technical assistance and that program got stopped because the microloan program got cut back and the dollars weren't available anymore.

ChairwomanVELÁZQUEZ. So you also heard that the technical assistance is provided through other programs, why do you think this particular microloan and PRIME technical assistance components are so important and unique?

Mr.KELLY. We are dealing with different people is basically is the short answer. The other programs I think are fine for who they help, but for the mostly low income, often rural folks who don't have a lot of other options, these programs really fill a need for them that the other programs just don't. They don't get the same level of technical assistance throughout the whole process—before the loan, when the loan is made and after the loan is made—like you get in the microloan program, the real basic help that the PRIME program takes. And some of them are really dealing with what I call financial literacy issues that the other programs really are not addressing.

ChairwomanVELÁZQUEZ. Thank you, Mr. Kelly.

Mr. Chabot.

Mr.CHABOT. Thank you, Madam Chair.

Mr. Kelly, I will begin with you if I can. I wanted to talk with you briefly about the microloans, also something I have had an interest in for a long time. I remember seeing and you mentioned the Grumman bank. And there was a program I remember seeing 20 years ago on 60 Minutes, that was the first time I was aware that they even existed or that there was such a thing. And they had the guy that started the Grumman bank, Dr. Mohammed Yunus, who I had the great pleasure to have lunch with a few months back. He

is a Nobel Peace Prize winner. And if you know anything about Bangladesh, they have a very challenging political landscape right now.

There is a caretaker government, and he was thinking about throwing his hat into the ring through an alternative party, and he tried it for a couple of months, thought better of it and got the heck out of it. And I guess a lot of people think that politics—it takes somebody, I guess with a unique ability to withstand all kinds of criticism from all kinds of angles and a lot of other things, but certainly in that area that I just mentioned, the area of helping people who really need help. He was one of the premiere people on earth.

And wrote—and of course, microloans, here we don't have the abject poverty in general here in the United States. Although, obviously, we do have poverty in this country, but in Bangladesh, it was a woman, for example, who couldn't afford—had no capital, couldn't afford to get the sewing machine, for example, and there would be a group that would keep kind of an eye on each other, make sure everybody paid it back. And the default rate was very, very low there.

And fortunately, here, the microloan program also the default rate has been very, very low. The loans are obviously larger than one would see in Bangladesh in general, and we have been reviewing those and talking about increasing them.

But could you discuss just briefly why—how—why the microloans have been successful in that area? One might think, because they are relatively low loans with people who may not have a long track record and may be new in business, that perhaps there would be a higher default rate because people wouldn't necessarily have the skills or the business acumen or whatever it is and just might fall into debt and just not be able to handle the loan, but that is not what we think.

Could you discuss that, why it has been so successful and maybe we can replicate it in other areas?

Mr.KELLY. Yes, I think the answer to it relates to what I was saying just a second ago, and it has to do with the training and technical assistance. And the extent or nature of that, groups like our members that are microenterprise development groups around the country are providing to entrepreneurs, again all through the whole process, so before you even get the loan, they work with them. We have found that some of the people really are not prepared, and then when the loan is made, you keep in touch with them constantly, so if any problem crops up, the nonprofit group who is working with them hears about it and can deal with it then, not when it is too late, after the loan is made, to continue working with them as well.

That I think is really the reason that it has been a success. And obviously a commercial bank could not do that kind of thing; it is too costly for them. So that is why this type of approach works so well with this particular niche in the population.

Mr.CHABOT. Thank you.

Mr. Kuczarski, if I could go to you next. First of all, I have always been very impressed with the role that credit unions have played and filled in the overall economy and then putting people oftentimes with limited means to do much better and to support

their families and to create more jobs and all the rest. So my hat's off to the credit unions for what they have been able to accomplish.

You had stated that many of the loans that you have processed would not have been made without the assistance of the SBA.

Could you tell us some of the specific difficulties that these borrowers face, that they would not have been able to do it but for the SBA?

Mr.KUCZARSKI. Of course. In my testimony, I mentioned a few of those factors, and one is, many times, is lack of collateral. A member may be buying a business that may not have tangible assets that they can pledge as collateral or they may not have a home, and where you are actually financing the goodwill of the business. And the SBA allows us to enter a transaction with this member without a proper underwriting criteria with cash flows and allow us to do that loan, where typically a conventional financing package would not be feasible.

Another issue that we look at is also management experience. We may have a member looking to buy a business that may be new into the industry. It is a successful business, but they want to purchase the business, and they may have either a lack of a down payment or they may have a lack of experience in that particular industry, and that is where the SBDC comes in to play for training. Training is critical for the success of these businesses and the SBA also helps with a lowered down payment; in situations, typically 10 percent for a down payment versus your typical 20 percent down in conventional financing.

Mr.CHABOT. Thank you very much.

Ms. Keenan, could you talk briefly about what specific services that you would look to expand if the authorization is raised, as well as the actual appropriation of course as well? I know you already discussed it somewhat, but could you expound upon that a little bit?

Ms.KEENAN. We would certainly be able to meet the growing demand for our services. In the area of business planning, access to capital, government procurement, international trade, compliance, services to manufacturers and sustainability issues and expanding companies, emerging company technologies.

Mr.CHABOT. Thank you.

And finally, Mr. Crawford, given the present credit crunch, what is the outlook for small business growth and expansion in the near future if you could comment on that, if you want to wade into those waters.

Mr.CRAWFORD. I am probably biased on this, having owned two small businesses and having created a number of jobs, including during a recession. I think that the entrepreneurial spirit of this country and of business owners is phenomenal.

A lot of people have been laid off. I came out of banking, both my banks are toast. They are gone. They have laid off folks, thousands of folks. Those folks are making a good living now. Many of them, the people that I know, have created their own businesses, and they created them in tough times, and they made a go of it. The grease that feeds that wagon train is capital; it is money. And that was certainly true in my case, and it is true in most cases that I have seen. That's why we cannot restrict access to capital. We

have to make it more convenient. We have to bring the SBA into the 21st Century—we have to bring them into the 20th Century.

Their use of technology needs to be advanced. Their staffing levels, you all have touched on that this morning. I believe our own program's growth is going to become restricted by simply staffing levels, the ability to approve and authorize 504 loans. I have talked about that to the administrator on a couple of occasions, and I think those are going to be critical issues for us in the coming year, especially if we go into a recession where we and 7(a) are needed most.

Mr.CHABOT. Thank you very much.

I yield back.

ChairwomanVELÁZQUEZ. Mr. Bartlett.

Mr.BARTLETT. Thank you very much.

Mr. Kuczarski, I am a big fan of credit unions, they serve a real niche need. You all make loans that the major banks wouldn't even think of making. They would lose money making the loans. So I am very jealous that we don't put at risk our credit unions because they are very important for our small businesses. And I notice in your prepared testimony that you note that the field of membership for your credit union is anybody who works and lives in Berkshire County.

Mr.KUCZARSKI. Yes.

Mr.BARTLETT. Credit unions enjoy certain regulatory releases that banks aren't subjected to. You have certain tax advantages. And my concern is that if you—if your field of membership is the world, then how are you different from a bank? And the banks are watching that.

And I would encourage you to not put at risk the very valuable service that you provide to our citizens by making yourself look so much like a bank that you are indistinguishable from a bank. And their plea that you are one of them and should be subject to the same regulations and taxes as them because you are unfairly competing, it is hard to refute. Just a word of caution that you are a unique organization and please don't make your field of membership the world, because then, how are you different from a bank? And their plea is that you in fact are not different and therefore, you should be subjected to the same regulations and taxes as they. I think if you were not here, a large number of people would be denied services that are very important to them.

I would just like to ask a question about HUBZones. I don't know if my personal experience with HUBZones is the usual experience, and that is what I would like to get an answer to. All these small business programs help people, and they are very important. But my experience with HUBZones is that they go beyond helping people; they help whole areas.

I have a whole county which is a HUBZone. And the jobs that are being brought to that county are not the average jobs in the county. The jobs that are coming there pay three or four times the mean salary that is paid in that county.

They are doing that because, in our government, we have HUBZone goals for all of our agencies, and it is the one area where our agencies are probably having the most trouble of meeting their goals, and so these business people see an opportunity to get a bit

of an advantage. And these are almost all competitive, the acquired contracts. And they see a bit of an advantage in operating from a HUBZone. So they voluntarily move their business to the HUBZone. And the local community colleges cooperate in providing courses so that they will have the workers they need, but they bring with them some workers and very high salaries.

By the way, that same county had the first HUBZone contract in the whole country. It is Garrett County in Maryland, and the first HUBZone contact was to Garrett Containers, and they are a very successful business now, building a lot of shipping containers for the military.

Is my experience an unusual experience, or is it a usual experience that the HUBZone contracts are helping communities by bringing higher paying jobs to the community, not just more low-paying jobs, which many of our small businesses do, but higher-paying jobs to the community. Do I have an unusual district or is that the norm?

Mr.KUCZARSKI. I apologize, Congressman Bartlett, I am not that familiar with—

Mr.BARTLETT. The rest of you, are you familiar with HUBZones?

Ms.KEENAN. A little bit. Just to say that I think that is certainly the intent of the HUBZone program. One intent is the economic development, stimulation and creation within a community. I am in Northern Virginia, and we don't have very many in Northern Virginia, but certainly throughout Virginia. An analogous example might be an enterprise zone that the State runs, which is a very similar example, where companies come in and bring a certain percentage of their workforce. But HUBZone requires that you hire local employees and residents as employees. And so, in that case, I think your example is certainly what they are striving for in the program.

Mr.BARTLETT. Well, 35 percent have to live in the HUBZone area, but they could have moved in.

Ms.KEENAN. They could have moved in.

Mr.BARTLETT. Which is what some of our people are doing. And every one of those high-paying persons that move in, that creates several good jobs, support jobs in the community.

Well, I thank you very much for your testimony and yield back the balance of my time Madam Chair.

ChairwomanVELÁZQUEZ. Sure.

Mr. Ellsworth.

Mr.ELLSWORTH. Thank you, Madam Chairwoman.

Mr. Crawford, in your written testimony on page three, I believe verbally, too, you talked about that history demonstrates the banks in tough time reacted in a couple of different ways, this paragraph, the first full paragraph on page 3. I was just curious if you had information on how the credit unions in those same situations, those same tough times, how the credit unions react. Do you have any information on that? Do they implement those same things? Shrink the credit box? Are they easier to work with, do you have an opinion on, that when tough times occur?

Mr.CRAWFORD. Well, I am sure you want to address that same question to the other witness.

Mr.ELLSWORTH. Absolutely.

Mr.CRAWFORD. My personal experience was, when I attempted to borrow money during a recession for a small business that I owned from the Postal Service's credit union for which my wife was a member, I was turned down. That was the only loan I have ever been turned down for in my entire working career. It was in tough times. I guess they thought we didn't have good enough credit, even though I could have written a check for what I was actually asking for.

So I can only suspect that Postal Union executives act as most bank executives do, and they take a much more careful look at their credit, especially for their commercial credits. My experience has been, when things get tough, you don't cut off loans to your Fortune 500 companies, because they are going to pay the loans back. You don't cut of loans to consumers, because there are so many of them, you are going to make your money back on the numbers. And so who do you cut loans off to? Well, you cut loans off to small businesses. That has been my personal experience. That is what I hear. I spent 15 years in banks; that is what I saw in banks. I would suspect that credit union executives, because they have a fiduciary responsibility to their members, they would probably look much more carefully at their credits.

Mr.ELLSWORTH. Thank you.

And to follow up, and then I will let Mr. Kuczarski follow up on that, but in your opening statement, Mr. Kuczarski, you asked some of the things like raising above the 12.25, 12 and a quarter cap would make it easier for to you make these loans. Do the other three organizations represented have an opinion on Mr. Kuczarski's request? Do you support that? Can you officially support those requests on behalf of your organizations and that can either take a yes or no. If Mr. Kuczarski wants to comment on your comment or my first question.

Mr. Kelly.

Mr.KELLY. I don't really have an opinion on that. I am not qualified to comment on that program. I don't know enough about it, sorry.

Mr.ELLSWORTH. Ms. Keenan.

Ms.KEENAN. I am not prepared to comment on it. I would just say that increasing and expanding the outlets for capital for our small business clients and constituents is always a priority.

Mr.ELLSWORTH. And Mr. Crawford?

Mr.CRAWFORD. Well, I spent 15 years with the American Bankers Association which has—

Mr.ELLSWORTH. I know your answer then.

Mr.CRAWFORD. Strong opinions. Interestingly, my uncle ran a billion dollar credit union in Texas. He and I used to have violent conversations about the issue of competition by credit unions, going back to Mr. Bartlett's comments. So I should probably shut up.

Mr.ELLSWORTH. And in all fairness, Mr. Kuczarski, if you would like to close.

Mr.KUCZARSKI. I will approach that whole issue regarding the differences between credit unions and banks.

Mr.ELLSWORTH. You could take 3 days on that or more.

Mr.KUCZARSKI. I will comment on the issue of, in the event we do enter a recession, what would happen to our ability to provide

capital to small businesses. So we are a small business lender, that is what we do. We do not deal with large businesses. Obviously, we would look overall at our portfolio to look at the integrity of our balance sheet. If we see that there is a deterioration, obviously you need to take certain things into consideration. But when a member comes in, you have to look at the specific deal. You have to look at the member. You have to look at what they are proposing. And you have to look at the merits and not necessarily about the overall economy. Obviously, that does play a fact into the equation, but it's a very variable and subjective decision based upon the merits of that particular borrower.

Mr.ELLSWORTH. Thank you.

Madam Chairwoman, I yield back.

ChairwomanVELÁZQUEZ. Mr. Fortenberry.

Mr.FORTENBERRY. Well, you all heard my earlier question, so I am going to ask it again. And I think that I understand clearly your message, and I think you have laid out very well the primary drivers of empowering risk-taking access to capital; understanding of the market in particular; I think one of you mentioned experience in a particular industry, absolutely foundational.

A number of years ago, we changed the Tax Code to allow for accelerated or higher levels of depreciation, write-offs, immediate write-offs for higher levels of capital investment. I think that alone was such a powerful tool in the expansion of small business that I am not sure we clearly have noted the impacts of that. Its related to the fundamental question, let's broaden our thinking as to how we empower more people to understand and undertake risk taking for the purposes of their own welfare and societal benefit of new products being brought to market.

Health care I think is one of those inhibiting factors that keeps people from stepping beyond what their current confines are in order to enter into a new venture.

Certain other tax policies, I mentioned the general restrictions, or let's say the lack of incentive regarding home base businesses, could be another one which you obviously would significantly lower costs, particularly as we are entering into an age of telecommuting and linkages through other forms of advanced technology that would help us rethink the whole concept of how you get to the place where you produce that marketable product.

You all are on the ground and you know this. And I just would like to again challenge all of us to think in partnership about those other aspects, those other barriers that exist out there and what potential policy solutions there are to reduce those, to lower those that would augment our good ability at trying to provide capital, and trying to provide education, outreach, and trying to provide mentoring so that the poor resource allocation doesn't take place, and that is an important part of your work as well.

Mr.KELLY. Thanks for the question, Congressman Fortenberry. In response to one of your points about the health care, that is absolutely something we hear. I was at a meeting we had in Knoxville a couple years ago where we actually were meeting with entrepreneurs, not the nonprofits of the system. When we broke, people went into their different States, and there were four different States represented. Everyone of them independently came back and

reported to the group that health care was the number one issue. And in the discussion, the women that were in the group all said, I am working at another job because I need to keep my health care. I really don't want to do that. I want to stop that, and focus all my attention on this business that I also have, which is on the side right now.

Mr.FORTENBERRY. I don't think we clearly understand what a significant drain on productivity that is in this country. I don't think we clearly understand that, and that is one of the reasons, obviously, I am laying this out; not necessarily as a challenge to you all, but just to help us think creatively as to how we overcome—that is a good anecdotal story. I think it is repeated in so many ways across the country in so many forms. Sorry to interrupt.

Mr.KELLY. That is fine.

It is a complicated issue, and we certainly don't recommend any particular kind of bill or—I wish I knew what the answer was to the health care situation here, but it really is an issue for our folks on the ground.

Mr.FORTENBERRY. Here is a very small example, I will give you another; this is anecdotal. In my district, in one of my small towns, I had a small business owner come to see me, and I had introduced a measure last year that would allow a rollover of retirement plans into health savings accounts with the idea that the measure overcomes a potential barrier to entry into a small business because it is lowering the cost of basically start up, allowing someone to use an existing fund that sits out there. And obviously, health savings accounts also can be retirement accounts, so it is consistent with the original legislation. It ended up being in our tax bill last year. It didn't pass as a separate measure, but it did pass in the overall tax measure. I didn't think anybody paid attention to it until this small business person came to me and said, Jeff, that was huge for me and my employees, huge. It allowed my employees and me to maintain our health care policies by giving them an opportunity to start the health savings accounts, and obviously he had some type of cash-dropping policy that he subsidizes for them. So, again, I just lay that out anecdotally as a way to creatively think about how we potentially overcome something that is very real inhibitor out there.

The other ones are other creative tax policies that I think we ought to really focus on as to how we can stimulate potential small business investment. Again, going back to the tax policy several years ago allowing for the higher levels of immediate write-offs and capital investment, I just think that I was a huge boost to the small business sector. But I want to hear your ideas. I am not here to preach at you. I am just trying to extract from you, because you are the experts and you see this.

ChairwomanVELÁZQUEZ. Your time.

Mr.FORTENBERRY. Am I done?

Mr.CHABOT. There is a red light.

Mr.FORTENBERRY. Oh, is that what that means?

Mr.CHABOT. Yes.

Mr.FORTENBERRY. Can I have 15 seconds? I'll stop. Thank you, Madam Chair.

ChairwomanVELÁZQUEZ. Are you going to continue preaching, or are you going to ask a question?

Mr.FORTENBERRY. I will be quiet.

Mr.CHABOT. I give unanimous consent that the gentleman be given an additional minute to wrap up and ask a question that could be responded to.

ChairwomanVELÁZQUEZ. Without objection.

Mr.FORTENBERRY. Thank you very much. When I was a brand new Member of Congress, it used to frustrate me about the Congress Members who would never get to their question, but here I am. So please, you respond.

Ms.KEENAN. I would just say that the small business development centers, specific to the area of health coverage, a few years ago we worked on a project with the Health Leadership Council to put together a compilation, and this was in Virginia of health care products and ranges of cost that we then used to educate small businesses about what options there may be, so that although it can be prohibitive and certainly there is a reason—and we have the same examples, people that their spouse works while they start their business so can use their health insurance.

We started with this education initially to inform employers about what options may be available and that could be affordable so that they would be able to have an insured workplace. So that is one avenue, but you are absolutely right. There needs to be a continued look and review of how to lower the barriers for entry so that more businesses and more entrepreneurs are encouraged to take that risk.

ChairwomanVELÁZQUEZ. Mr. Fortenberry, if you will yield for a second. This committee recognizes the important aspect of health care in terms of the impact that it has on small businesses. That is why we created a grant program, a health care initiative under the small business development centers so that they could provide assistance in matching small businesses with health care providers.

Mr.FORTENBERRY. Thank you.

ChairwomanVELÁZQUEZ. Time has expired, and I will ask a last question to Mr. Crawford.

Mr. Crawford, in your testimony, you stated that the $7.5 billion in loan authority that the administration has proposed would be insufficient to confront the rising demand for 504 loans. Can you explain why a higher authorization level is necessary, and what will be the consequences if the amount exceeded authority?

Mr.CRAWFORD. Well, first of all, if I extend the current growth rate for this year we go beyond $7.5 billion, which means almost by definition you are going to see program shutdown if we grow just to 11 percent. I don't have any doubt that we will grow faster than 11 percent, because I personally believe, and I think Mr. Greenspan has agreed with me, that we are headed for a slow down. And if that happens, we will grow faster. That means they will shut us down sooner or go to credit restrictions, as you referred to, that occurred with a 7(a) program some years ago, that it seems like you or I are the only ones in this room that remember that, but that did occur—I am sorry, and Barry remembers it. But I don't want to see that with a 504 program. We are at zero sub-

sidy. The portfolio is performing extremely well. It seems to me, as you referred to 7(a), there is absolutely no cost to the taxpayer to put us at 8 or 8.5 or 12 and a half for that matter, but I would encourage that consideration.

ChairwomanVELÁZQUEZ. Thank you. And again, I want to thank all of you for coming here today and also for the work—the great work that you do in providing entrepreneurial development technical assistance, access to capital to small businesses in this country.

And I just want to make sure that you know that this has been an important discussion that will help us in crafting the final bill that we will have before this committee for consideration.

I ask unanimous consent that members have 5 legislative days to enter statements and supporting materials into the record. Without objection, so ordered. This hearing is now adjourned.

[Whereupon, at 11:21 a.m., the committee was adjourned.]

STATEMENT
Of
the Honorable Nydia M. Velazquez, Chairwoman
House Committee on Small Business
Hearing on Funding Legislation for Programs within the Small Business Act
September 27, 2007

I now call this hearing to order to review legislation providing funding levels for programs within the Small Business Act.

As the American economy continues to evolve and change, so must our economic policies. This committee has already taken steps to make certain that programs at the SBA are transformed to meet the needs of the nation's 27 million small business owners. To this end, we have reported over a dozen bills that will provide technical assistance, access to capital, and the overall tools for success.

The focus of today's hearing is to review legislation that provides the necessary authority and funding to implement these reforms. It is one of the last pieces of the puzzle as Congress moves forward with implementing the first major reform to the SBA in a decade.

A major challenge for the SBA and its programs has been meeting the growing demand for services. Nowhere has this been more evident than in the entrepreneurial development programs. SBDCs and Women's Business Centers have played a vital role in helping small businesses, but they have been faced with severe budget crunches.

Over the last five years, many centers have seen the administration cut their budgets by up to 20 percent. This is despite the fact that a $1 investment in SBDCs generates an estimated $3 in tax revenue. For these programs to maintain experienced staff, they must have sufficient resources. This legislation will provide such funding.

A primary role of the SBA is to help entrepreneurs that have the drive, but need assistance. The perfect example is the returning veteran who is prepared to start his or her own business venture By funding the Office of Veteran's Business Ownership, this can be achieved. Veterans often bring a unique skills, but they -- like other budding entrepreneurs -- struggle in converting these dreams into a successful business.

It is also critical that small firms have the necessary access to capital. With the growing credit crunch, entrepreneurs are faced with few options when it comes to financing. The 7(a) and 504 loan programs have filled a critical void when capital is scarce.
This legislation will ensure that the SBA loan programs will never have to shut down due to excess demand. And while later today, we will move a bill in the House that puts venture capital in the hands of small businesses; this bill will provide the authority to do so.

Microlenders will also be able to continue serving entrepreneurs who would not have opportunities otherwise. Considering that the default rate on Microloans continues to be at or near zero, it only makes sense to increase the authorization for this program.

Finally, it is important to note that this bill will increase funding for the HUBZone program. It may seem odd to do so considering the Inspector General has deemed that the program is plagued by fraud. However, this money will provide the SBA with the ability to carry out the program the way it was intended.

I want to thank the SBA and stakeholders for coming here to discuss these programs and ways to improve them. An authorization bill expresses this committee's intent on how the programs should be operated. But before making recommendations, it is critical to seek the input of those who carry them out.

For too long, the administration has either underfunded or underutilized initiatives that have successfully assisted small businesses. This has been an obstacle to their success. The legislation we are considering today changes this -- by enabling the SBA and its partners to provide the necessary capital and technical assistance.

The committee will use this hearing to make any changes so that the SBA can meet their client's needs. I look forward to today's discussion and would yield to Mr. Chabot for his opening statement.

Opening Statement

Hearing Name	Hearing on Legislation to Provide Funding Levels
Committee	Full Committee
Date	9/27/2007

Opening Statement of Ranking Member Chabot

I would like to thank the Chairwoman for holding this important hearing to address one of the more technical yet significant issues that the Committee must consider as it wraps up its efforts to examine and reauthorize the Small Business Act and Small Business Investment Act of 1958.
The major SBA financing programs, the 7(a) guaranteed loan program, the Certified Development Company loan program, and the Small Business Investment Company program operate without any appropriation at all. Even so, it is the responsibility of Congress to ensure that limits are imposed on the ability of the Small Business Administration to guarantee repayment of obligations authorized by banks, CDCs, and SBICs. In doing so, Congress must balance the need to protect the full faith and credit of the United States with the need to ensure that the SBA has sufficient authority to meet the financing needs of the small business community.

In addition, there are two other major financing programs – the Microloan program and the Surety Bond program that utilize minimal levels of appropriations. Even with the need for an appropriation, these programs still operate through reliance on the full faith and credit of the United States. As a result, Congress must exercise its responsibility to ensure that the full faith and credit is used in a sensible manner.
Today, we also will hear about the needs of the Small Business Development Center program. Even though the funding level for that program is determined in the appropriation process, the formula for the allocation of funds among the various grantees in the SBDC program is based, in part, on the levels authorized in the Small Business Act.

There are also a number of additional separate authorization levels that are scattered throughout the Small Business Act. In almost all cases, the programs operate without regard to authorization levels as long as there are funds appropriated for them. In addition, section 20 of the Small Business Act contains a permanent authorization for all programs as long as funds are appropriated for the programs. In my opinion, there is no absolute legal need to dictate authorization levels for programs that have permanent operating authority or whose operating funds derive from the salary and expenses account in the SBA appropriations.

Even though there is no absolute legal need to undertake consideration of the myriad of these authorizations, I think the Committee can use this process for separate authorizations to provide an additional opinion to the appropriators on the importance and funding levels for various programs. The Committee already had one shot at that in the budget views and estimates letter but this provides a second opportunity to express to the appropriators which programs should receive more funding than the requests submitted by the SBA. Given the potential that this authorizing process may have for the Committee's oversight of the SBA and the information it can supply to the Committee on Appropriations, I believe that the process serves a valuable public policy goal even though it does not constitute a strict legal necessity.
Again, I would like to thank the Chairwoman for holding this hearing and look forward to the ideas offered by our distinguished panelists.

I yield back the balance of my time.

TESTIMONY OF THE HONORABLE JOVITA CARRANZA DEPUTY ADMINISTRATOR US SMALL BUSINESS ADMINISTRATION

COMMITTEE ON SMALL BUSINESS HEARING ON SBA PROGRAM AUTHORIZATIONS

September 27, 2007

Chairwoman Velazquez, Ranking Member Chabot, thank you for inviting me to testify on the proposed authorization levels for the Small Business Administrations (SBA) program. In the interest of simplicity, I will separate my comments into the three major areas of programs at the SBA which include credit programs, non-credit assistance programs and general authorizations. The SBA appreciates this opportunity to testify and to share our views on the projected growth of various programs, estimates and requests, and the authorization levels in the Committee's draft bill.

Credit Programs

While we appreciate the Committee's interest in SBA's credit programs, we have some concerns with the authorization levels proposed in the draft bill. For example, while the draft bill's authorization for the 504 program is generally consistent with the 2008 Budget request, the 7(a) general business loan authorization level of $20 billion is higher than the 2008 Budget request of $17.5 billion. We do not recommend this higher authorization at this time.. In addition, we do not support the draft legislation's authorization for the participating securities program, which has proven to be extremely costly to the taxpayer. Also, we do not believe authorization for DELTA loans is necessary, as SBA no longer makes those loans.

Non-credit programs

We also have concerns about the authorization levels for non-credit technical assistance programs.. Our annual budget submissions for these programs reflect our desire to make these technical assistance programs more efficient, so that SBA can increase the assistance we provide to small businesses. The draft legislation authorizes these programs at levels much higher than the 2008 Budget and recent enacted amounts. In addition, while the Administration supports micro-lending, we believe the $20 million in authorized funding for PRIME is not necessary and is duplicative of our other technical assistance programs.

General Authorizations

Currently, the Small Business Act contains several independent authorizations for various programs, as well as the general authorization of appropriations for SBA's operating budget. A significant example of this funding structure is the HUBZone program. Currently, the HUBZone program receives a $10 million authorization which would be doubled to $20 million in the draft bill. In the most recent appropriation, (the Fiscal Year 2007 Continuing Resolution) the program received a $2 million line item. However, SBA has allocated direct and indirect financial resources of close to $9 million to the program. The disparity between the line item and the direct allocation highlights the inconsistencies in our current budget process. The Administration recognizes that the Congress wishes, through line items and specific authorizations, to clarify its priorities and exercise its oversight function. Unfortunately, the restrictive nature of such line items tends to inhibit the flow of resources to program priorities rather than insure them. The Administration's budget request has therefore often asked for the elimination of line item appropriations. The SBA notes that the 8(a) program has no specific authorization levels but has a permanent authorization. Nevertheless, SBA allocated resources of close to $11 million to support the 8(a) program.

Reauthorization

Without an extended reauthorization, several programs and authorities currently undertaken by the SBA will cease to exist after the current six month authorization expires in December, they include:

- Small Business Development Center (support for Paul D. Coverdell Drug-Free Workplace Program) (Sec. 21(c) (3) (T) of the Small Business Act). Authority for both the Paul D. Coverdell Drug-Free Workplace Program and SBDC authority to participate in the Program are not in the Bill.

- Gift acceptance authority (Sec. 4(g) of the Small Business Act) and Cosponsorship authority (Sec. 4(h) of the Small Business Act) expire on December 15, 2007.

- Advisory Committee on Veterans Affairs (15 U.S.C. 657b)—Duties of the Committee were scheduled to move to the National Veterans Business Development Corporation expire on December 15. 2007.

In addition, without authorization several of the SBA's programs will no longer have authorization for appropriations, they include:

- General program levels (includes business loans, disaster loans, small business investment company financings, development company financings, surety bond guarantees, and SCORE) (Sec. 20).

- Paul D. Coverdell Drug-Free Workplace Program (Sec. 27(g) of the Small Business Act).
- HUBZone (Sec. 31(d) of the Small Business Act) — technically expired at the end of FY 2006.
- Womens' Business Center Program (Sec. 29(k) of the Small Business Act)— expired at the end of FY 2003.
- Small Business Development Centers (Sec. 21(a) (4) (C) (vii) of the Small Business Act)—technically expired at the end of FY 2006.
- National Women's Business Council (15 U.S.C. 7110(a)) — technically expired at the end of FY 2003.

Chairwoman Velazquez that concludes my testimony. I appreciate the opportunity to share the Administration's views and I look forward to any questions you may have.

HOUSE COMMITTEE ON SMALL BUSINESS

Hearing on

Small Business Reauthorization Act of 2007

September 27, 2007

Written Statement of
Kevin S. Kelly
Managing Director for Policy and Advocacy
Association for Enterprise Opportunity
Arlington, Virginia

Dear Chairwoman Velazquez, Ranking Member Chabot and other members of the House Small Business Committee:

My name is Kevin Kelly and I am the Managing Director for Policy and Advocacy at the Association for Enterprise Opportunity. The Association for Enterprise Opportunity is the national organization that represents local microenterprise development organizations throughout the United States.

I am pleased to be here today to discuss the authorization levels for several programs at the Small Business Administration, specifically the Microloan Program, PRIME (Program for Investment in Microentrepreneurs) and Women's Business Centers. We respectful ask that the Committee support the following authorization levels:

Microloan Lending:
- FY 2008: $110 million
- FY 2009: $120 million

Microloan Technical Assistance:
- FY 2008: $80 million
- FY 2009: $90 million

PRIME Program:
- FY 2008: $20 million
- FY 2009: $20 million

Women's Business Centers:
- FY 2008: $17 million
- FY 2009: $17.5 million

These three programs have provided essential funding to microenterprise development organizations in our country. In fact, these programs are the only federal programs that specifically focus on domestic microenterprise development. There are other federal programs from which some microenterprise development organizations in the U.S. are able to qualify for much needed funding, but microenterprise is just one of many eligible activities and is not the main focus of those programs.

The SBA Microloan Program

The SBA Microloan Program, the single largest dedicated source of funding for microenterprise development in the nation, was created in 1992 to help small business owners in need of small amounts of capital (less than $35,000) that are not yet "bankable" in the private sector lending community. Since 1992, SBA Microloan Intermediaries have made over 26,000 Microloans totaling over $318 million, primarily to women, minority, and low-income entrepreneurs.

Microloan is a cost-effective program that creates and retains jobs that stay in local communities. In FY 2006, the Microloan Program created or retained almost 10,000 jobs at a cost per job of roughly $3,300 in loan capital! When technical assistance funds are added, it still works out to only $4,600 per job created or retained which is still much less costly than other federal job creation programs.

Lending

The lending portion of the Microloan Program does not require much of a direct appropriation from the federal government. A small appropriation translates into a significant level of lending authority for the program. The payment of past loans, plus interest by microlenders contributes to the pool of lending capital.

AEO is requesting the following authorization levels for the lending portion of the Microloan Program: $110 million in FY 2008 and $120 million in FY 2009.

Technical Assistance

The key component of the Microloan Program—and the main reason it has been able to maintain a default rate to SBA of nearly 0%—is intensive pre-and post-loan technical assistance. This technical assistance allows Microloan Intermediaries to extend credit to entrepreneurs with elevated risk profiles, acts as a driver for business success, and greatly improves the chances for successful business repayment. In contrast, private sector banks typically do not provide any technical assistance to their borrowers.

We feel that the appropriations for the technical assistance portion of the Microloan Program pays for itself by helping to keep the default rate on the lending portion of the program low and to insure that a higher proportion of the businesses that receive technical assistance survive long-term, than would otherwise be the case.

AEO is requesting the following authorization levels for the technical assistance portion of the Microloan Program: $80 million in FY 2008 and $90 million in FY 2009.

AEO has been working to get funding the Microloan Program back up to what it once was. By increasing funding for this program the existing 160 or so Microloan Intermediaries will be able to increase their lending and additional microenterprise development organizations would be able to join the program.

PRIME

PRIME (Program for Investment in Microentrepreneurs) is the only federal microenterprise program that provides intensive training and technical assistance to low- and very low-income entrepreneurs who do not yet seek business capital. For many entrepreneurs, lack of access to capital is only one of the barriers to starting or growing a successful small business. PRIME provides grants to microenterprise organizations to offer this invaluable assistance. In addition, PRIME is unique in that at least 50% of all grant award dollars must be used to provide these services to very low-income individuals. By providing technical assistance, PRIME enables low-income entrepreneurs to gain fundamental business knowledge that prepares them to seek loan capital later. PRIME serves as the first stop in a continuum that leads to Microloans and then access to financing from traditional commercial banks.

AEO is requesting the following authorization levels for PRIME: $20 million in FY 2008 and $20 million in 2009.

PRIME was originally created as a national program, but after the first year (when it received $15 million), it was cut back to such a minimal level (currently $2 million) that it has been limited by the SBA to only a few states.

Many microentrepreneurs are not ready for a loan or do not need a loan. Consequently, half of the microenterprise development organizations in the country do not make loans. They focus on providing training and technical assistance to microentrepreneurs instead. PRIME was designed to meet this need. By cutting this program so severely, entrepreneurs who could have grown their businesses and hired employees have not been able to receive the assistance that they need.

Women's Business Centers

The Women's Business Centers (WBC) of the Office of Women's Business Ownership provide training and technical assistance to women starting or expanding their businesses. In 2006 alone, Women's Business Centers across the country trained and counseled over 197,000 women in core business areas such as marketing, bookkeeping and finance. The Centers serve an invaluable role in meeting the special needs of female entrepreneurs across the country.

America's 10.6 million women-owned businesses employ 19.1 million people and contribute $2.46 trillion to the economy. However, women continue to face unique

obstacles in the world of business and greatly need the specialized services that Women's Business Centers provide.

AEO is requesting the following authorization levels for Women's Business Centers: $17 million in FY 2008 and $17.5 million in FY 2009.

In conclusion, I would like to thank the committee for taking the time to review the authorization levels for these three programs. An increased investment in these programs will result in an increase in the number of microenterprises and jobs in some of the most economically challenged communities of our nation. I salute your efforts to ensure that these programs receive appropriate funding and look forward to the passage of legislative language to set authorizing amounts for fiscal years 2008 and 2009.

Thank you for the opportunity to testify today.

WRITTEN STATEMENT
OF
DONALD KUCZARSKI
SVP BUSINESS BANKING
GREYLOCK FEDERAL CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION
BEFORE THE
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
SEPTEMBER 27, 2007

Chairwoman Velazquez, Ranking Member Chabot, and other members of the Small Business Committee, I am Donald Kuczarski, Senior Vice President of Business Banking at Greylock Federal Credit Union, in Pittsfield, Massachusetts. I appreciate this opportunity to appear before the Committee on behalf of the Credit Union National Association (CUNA) and to express our support for maximum funding levels for the Small Business Administration's 7(a) Loan Guaranty Program. CUNA is the nation's largest credit union advocacy organization, representing over 90% of our nation's approximately 8,800 state and federal credit unions, their State credit union leagues, and their 89 million members.

Greylock FCU is located in Western Massachusetts in the Heart of beautiful Berkshire County. Our Field of Membership includes anyone who works or lives in Berkshire County. Pittsfield has a population of 40,000 and Berkshire County has a population of 135,000.

Greylock is the leading mortgage and auto loan lender, and has also become a leading lender for small businesses, thanks in large part to the Small Business Administration's 7(a) lending program.

Chairwoman Velazquez, I'm honored to be here to speak to you about the positive impact that SBA lending offers to our local economy, to our credit union and most importantly to our members. Your leadership and efforts to encourage credit unions to participate in SBA programs is greatly appreciated and we thank you for introducing the Credit Union Small Business Lending Act, which will do just that. We truly value our partnership with the SBA. It has

helped so many small businesses owners and contributed to an economic turnaround in Western Massachusetts so we thank you for this opportunity to share with you our experience in 7(a) lending.

Just a bit of background on our credit union: Greylock was founded in Pittsfield Massachusetts in 1935 as the Pittsfield G.E. Employees' Credit Union. GE thrived for many decades, offering thousands of good paying manufacturing and engineering jobs. Pittsfield's population exceeded 60,000, and the local Berkshire County economy relied heavily on General Electric. In the 1980s and 90s, GE downsized dramatically, eliminating more than 15,000 jobs and leaving only one division with about 500 jobs. In order to survive and continue to serve our members, Greylock moved to a community charter in the early 1990s, enabling us to serve not only GE families, but anyone who lives or works in Berkshire County.

The local economy has struggled to regain its footing since the departure of GE. Today the population of Pittsfield is just barely over 40,000, and only 135,000 people live in Berkshire County.

Slowly, the backbone of the Berkshire economy has moved from large manufacturers like GE to small businesses and family-owned enterprises. Hundreds of entrepreneurs have found a way to stay and grow in this area, and in 1999, Greylock established a business banking practice to help support that growth.

While we offer all the services typically found in a commercial banking operation we focus on small businesses with business loan requests between $10,000 and $200,000.

Many of these loans, due to their higher risk profile, would not have been made without the assistance of the SBA. They were ineligible for conventional financing due to minimal management experience, insufficient collateral or the business had a limited track record.

As a community based credit union, Greylock has always taken pride in giving auto loans and mortgages to members who are unable to obtain conventional financing. With the help of the

SBA, Greylock has been able to extend that philosophy by injecting over $11 million into the local economy.

We were one of the first credit unions in the state to show an interest in becoming an SBA-approved lender, and we were approved in December 2002. Since then, we have developed a great working relationship with SBA, and in 2006 we became one of the first credit unions in the nation to be named to the Preferred Lender Program, or PLP. This was obtained as a result of our lending experience, and the quality and quantity of our SBA loan portfolio. Being a PLP lender allows us to approve loans without having to submit them to a regional office which can save a lot of time.

Thanks to the SBA program, we can offer financing at reasonable rates to small companies who do not fit the standard underwriting criteria.

Let me give you an example: a local family sought to purchase and expand a bakery business. The collateral associated with this loan would have been inadequate for Greylock to help them. But through the SBA program, we provided the financing they needed and this small business is now growing rapidly into a regional wholesaler. This business will exceed $3 million in sales this year. The business deserved to be financed, and thanks to SBA, Greylock Federal Credit Union was able to help them get started.

We have hundreds of other stories like this one – landscapers, contractors, and small retailers. Through the SBA the credit union can do the right thing for the member and for the community while responsibly managing financial risk and credit quality. We have grown to become the number one SBA lender in our county, the eighth SBA lender overall in Massachusetts, and one of the top credit union SBA lenders in the country.

Small businesses are the lifeblood of the economy in our hometown region, and Greylock is the leading source for small business financing thanks to the SBA. But we would appreciate your help in making sure that flow of financing continues. As you know, credit unions have a cap on the amount of commercial lending they can engage in. We are limited to 12.25% of assets and

from our experience the current cap is artificial and far too restrictive. Less than eight years into our commercial lending, and after only five years of SBA lending, we will soon hit the cap and have to limit future loans to businesses in Berkshire County. Strictly speaking, SBA loans do not count toward the cap. Currently, only the guaranteed portion of a loan (generally 75 – 80% of the loan amount) is excluded. However, these loans often evolve into conventional loans, so the cap hamstrings us, taking away the flexibility that has been the key our success. Chairwoman Velazquez, your legislation, the Credit Union Small Business Lending Act, would expand the member business lending cap by exempting the entire loan amount from the cap, providing credit unions with additional capacity to make non-SBA business loans.

There is also a provision in the Credit Union Regulatory Improvements Act, H.R. 1537, that would increase the MBL cap from 12.25 % to 20% of assets. Not only would this provide relief to credit unions already offering member business lending, it would also make it feasible for other credit unions to incur the expenses in establishing formal business lending programs and allow many more local businesses to have the benefits of increased lending options.

CUNA is hopeful that credit union participation in the SBA 7(a) program will continue to grow. However, credit unions will have a difficult time when faced with the current roadblocks of increased fees and inadequate funding of the SBA's programs. By definition, these loans are going to small and start-up businesses and increased fees can really hurt them when they are managing very tight margins and cash flows. For example we recently provided financing to a payroll company for the acquisition of a competitor. Our member had to pay an $8,200 fee to the SBA for a $365,000 loan.

Again, thank you for the opportunity for us to share our thoughts on sustaining and improving the 7(a) program. It means a lot to our credit union and to the small businesses we serve in Berkshire County.

Statement by Jody Keenan
Chair of the Board of Directors
Association of Small Business Development Centers

For a Hearing on Legislation to Authorize Funding for SBA Programs
In the Committee on Small Business
U.S. House of Representatives

September 27, 2007

Chair Velazquez, Ranking Member Chabot, and members of the Committee, my name is Jody Keenan. I am the Chair of the Board of Directors of the Association of Small Business Development Centers (ASBDC).

I appreciate the Committee's invitation to present the ASBDC's views at this hearing, concerning authorized funding levels for our nation's Small Business Development Center (SBDC) network.

The ASBDC's members are the 63 State, Regional and Territorial SBDC programs that serve all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The nationwide SBDC network is a partnership that includes Congress, SBA, the private sector, and the colleges, universities and state governments that help fund and manage SBDCs across the nation.

The SBDC network provides management and technical assistance to more than 1.3 million small business owners and aspiring entrepreneurs each year. Small Business owners and aspiring entrepreneurs can go to their local SBDCs for free, face-to-face business consulting and at-cost training on writing business plans, accessing capital, marketing, regulatory compliance, international trade and more.

Chair Velazquez and Ranking Member Chabot, I would like to thank you and the members of the Committee, on behalf of ASBDC and the dedicated men and women who are a part of America's SBDC Network, for your support of our nation's Small Business Development Centers. You have been true champions of small business, aspiring entrepreneurs and the SBDCs that serve them.

Chair Velazquez, I want to personally thank you for your leadership and your work to help secure desperately needed funding for the SBDC program. This year you once again urged the Budget Committee and the Appropriations Committee to provide a significant increase in appropriations for the SBDC network. And thanks to your efforts, and the support of the Budget and Appropriations

committees, the House Financial Services Appropriations bill contains a much needed increase in funding for America's SBDC network.

SBDCs are a vital resource for America's small businesses -- the engine of our nation's economy that creates nearly three-quarters of all new jobs and generates half of the nation's Gross Domestic Product.

As you know, the fastest area of entrepreneurial growth is among women and minorities, an area where we have a great deal of experience, expertise and success. SBDCs have specialized programs for minorities, women, veterans, people with disabilities, 8(a) firms, individuals in low- or moderate-income urban and rural areas, and individuals in HUB Zones and Empowerment Zones.

More than 40% of SBDC clients are women. Thirty-one percent of our counseling clients are minorities. Ten percent of our counseling clients are veterans (and we believe the actual percentage of our clients who are veterans is higher than that, but many veterans do not self-declare).

In 2006, the nationwide SBDC network helped in-depth clients (that is, clients who received five our more hours of SBDC consulting during the year) to:

- create 67,233 new full time jobs;
- save an additional 76,820 jobs;
- generate nearly $6 billion in new sales;
- preserve approximately $7 billion in sales;
- obtain nearly $3.4 billion in financing; and,
- generate approximately $201 million in new Federal revenue as a result of economic growth.

Think about what that means. It means that SBDCs help Americans start and grow their own businesses, create jobs, grow our economy, and strengthen the fabric of our society. And we do all that while generating more new tax revenue -- as result of economic growth -- than it costs taxpayers to fund the SBDC program. A government program with these kinds of results deserves the investment of Federal resources.

However, the nationwide SBDC network today receives less Federal funding than it did in FY 2001 -- even without accounting for inflation. With inflation, the average state will receive approximately 19% less Federal SBDC funding in FY 2008 than it received in FY 2001, unless Federal SBDC funding is increased.

SBDCs are closing and cutting back on services across the nation. SBDCs were able to provide business consulting to 78,082 (or 28%) fewer small business owners and aspiring entrepreneurs in 2006 than we were able to serve just two years earlier. And we provided 372,338 (or 24%) fewer business consulting hours in FY 2006 than we provided just three years before.

For all of these reasons, the ASBDC respectfully asks the Committee to increase the SBDC authorization to $140 million in FY 2008 and $145 million in FY 2009. These levels of authorized funding will allow the SBDC network to recover from declining real Federal funding during the past seven years, meet the growing demand for SBDC services, and increase business and job creation. In addition, these increased authorization levels will once again indicate to the Budget and Appropriations Committees the strong support of the Small Business Committee for the work of America's SBDCs.

Madam Chair and Ranking Member Chabot, we also ask for your continued support to ensure that core funding for the SBDC network is restored. The ASBDC shares the Committee's strong interest in increased efforts to address special needs in the business community. Our Association has been concerned, however, that new SBDC grant programs could adversely impact funding that is distributed to state SBDC networks based on population, to fulfill the network's core functions. We sincerely appreciate the reassurance of Committee staff that core SBDC funding will be restored before new SBDC grant programs are funded, and we ask that the conference reports on the bills creating new SBDC grant programs include language to that effect.

Finally, Madam Chair and Ranking Member Chabot, the SBDC network deeply appreciates operational changes that the Committee included in the SBA Entrepreneurial Development Programs Act of 2007. These changes, such as strengthening privacy protections for SBDC clients, will greatly enhance the SBDC network's ability to serve the small business community and aspiring small business owners.

Chair Velazquez and Ranking Member Chabot, we again thank you and the members of this Committee for all that you have done to ensure that small businesses, aspiring entrepreneurs, and the SBDCs that serve them have the resources they need. We appreciate your willingness to consider our views.

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

504 Loan Guaranty Program

Requested FY 2008 - 2009 Funding Levels

Submitted to the

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

by

Mr. Christopher L. Crawford
President & CEO

McLean, Virginia

September 27, 2007

The National Association of Development Companies (NADCO) is pleased to provide a statement to the House of Representatives Committee on Small Business concerning the 504 authorization levels required to meet anticipated program demand during FY 2008 and 2009.

NADCO is a membership organization representing the Certified Development Companies (CDCs) responsible for the delivery of the SBA 504 program. We represent more than 250 CDCs and more than 200 affiliate members, who provided more than 99% of all SBA 504 financing to small businesses during 2007, as well as many other small business programs and services in their communities. CDCs are for the most part not-for-profit intermediaries with a statutory mission of community and economic development achieved through the delivery of the SBA 504 and other economic development programs and services customized to the needs of their respective communities.

NADCO's member CDCs work closely with SBA and our lending partners to deliver what is certainly the largest and most successful federal economic development finance program in history (over two million jobs, $44 billion in 504 loans and the leveraging of over $55 billion in private investment since 1986).

NADCO would like to thank Chairwoman Velazquez, Ranking Member Chabot, and the entire Committee, for continued support of the CDC industry and the 504 program. Your Committee has worked closely with SBA and our industry to ensure the availability of this valuable economic development program to small businesses for more than twenty years.

NADCO will provide comments today on the Congressional authorization levels we believe will be needed to meet the growing demand for 504 loans for the next two fiscal years.

504 FY 2008 Authorization:

We expect to end FY 2007 with about $6.5 billion in authorized 504 loans. The Administration proposes an authorization ceiling of $7.5 billion for FY 2008, the same as the current FY 2007 ceiling. With 504 program demand by small businesses growing at a rate of over 10% so far this year, NADCO believes that a ceiling of $7.5 billion would increase the risk of running out of 504 authority during FY 2008.

The 504 program has been at "zero subsidy" since 1997. This means that there is absolutely no cost to the taxpayer for the program. It is fully paid for by user and lender fees. Given that there is no cost whatsoever for 504 loans, we urge the Committee to increase the loan authority for FY 2008 to ensure that small businesses are not turned away by SBA. We request a minimum of $8.5 billion in loan authority, which is $1 billion more than the Administration's proposal.

The 504 program's growth rate since going to zero subsidy (11 years ago) is 27% annually. The program's most recent five-year growth rate has been more than 16% annually. While these historical growth rates would indicate a potential 2008 demand of about $7.6 billion for 504, it is important to consider the impact of a slowing economy on 504 demand. With the impact of increasing energy costs yet to be fully realized and the potential for other unknown factors, it is likely that the U. S. economy may slow further in the 2008 – 2009 time period. This will almost

certainly lead many traditional commercial lenders to tighten their credit standards – especially for small businesses with volatile financial histories, or new owners in start-up situations.

History demonstrates that as banks become more wary of possible loan defaults in tough times, they react in two ways. First, they "shrink the credit box", and demand higher down payments, shorter terms, and apply higher interest rates to compensate for likely loan losses. Second, they turn to "credit enhancement" vehicles to decrease their risk of loss in the event of a loan default. This is where 504 comes in. Historically, banks will bring more of their small business loan requests to CDCs and the 504 program as a means of decreasing their "loan to value" ratio by sharing the project debt risk with the SBA-guaranteed second mortgage.

This response in tough economic times is exactly why the program exists: to provide long term financing with reasonable terms to small businesses that continue to thrive and create jobs. Those jobs are what pulls our economy out of recessions, and 504 is a primary financing provider when other lenders have pulled back from the small business market.

NADCO believes that the 504 program may be needed over the next several years even more than in recent years if our economy slows. We urge the Committee to meet this potential need by increasing the authorization ceiling to $8.5 billion for 504 for FY 2008.

504 FY 2009 Authorization:

For FY 2009, the Administration has requested only $8.0 billion in loan authority. NADCO believes that is a level that could lead to a program shutdown due to insufficient loan authority. At our five-year growth rate of 16%, by 2009, 504 would require $8.7 billion in authority.

In order to assure continued 504 program availability, NADCO requests a minimum authority level of $9.0 billion for 2009.

Conclusion:

Through 504, SBA provides the largest and most successful community and economic development program the Federal government has today. Its real value to America is immeasurable. Through the jobs it creates and the business growth it fosters, 504 benefits employees, business owners, and government at all levels. Our borrowers pay Federal payroll and income taxes, State sales, payroll and income taxes, and local income and property taxes. All this takes place with no cost for the loan program to the U. S. taxpayer, yet provides billions of dollars to every city, county, and state in our nation, as well as to the Federal government.

With the increasing prospects of an economic slowdown, or even a recession over the next two years, it is imperative that Congress enable the CDC industry to meet the increasing needs for long term financing with low down payments for America's small businesses. Our loans create jobs when they are needed most. NADCO urges the Committee to provide increased loan authority to meet those needs. Again, we thank the Committee for its support of 504 and look forward to another successful year of creating more jobs for our country.

National Association of Federal Credit Unions
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B. Dan Berger
Senior Vice President
Government Affairs

September 26, 2007

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velazquez:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU) the only trade organization exclusively representing the interests of our nation's federal credit unions, in conjunction with the Committee's hearing tomorrow and in support of your efforts for increased funding of the Small Business Administration's (SBA) 7(a) and 504 lending programs.

These particular SBA programs are invaluable tools that help many Americans successfully start and run their own business. In fact small businesses today represent 99.7 percent of all employer firms, employ half of all private sector employees, pay more than 45 percent of total U.S. private payroll and have generated 60 to 80 percent of net new jobs annually over the last decade. Many small business owners are members of credit unions around the country and rely on our services to help make their small businesses a success. However, recent increases in borrower and lender fees with these loans have made these loans a less attractive option for credit unions.

Furthermore, many federal credit unions are discouraged from taking part in these helpful programs due to current burdens of qualifying as an SBA lender and the challenges of underwriting and servicing loans. NAFCU strongly supports H.R. 1849, the *Credit Union Small Business Lending* Act, which you introduced on March 29th, 2007, that would help address these concerns. In addition to supporting your efforts for increased funding for these SBA programs, we also urge the Committee to take up and pass this important legislation.

E-mail: dberger@nafcu.org • **Web site**: www.nafcu.org

The Honorable Nydia Velazquez
September 26, 2007
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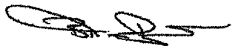
We thank you for holding this hearing and look forward to continuing to work with the Small Business Committee in finding ways to increase federal credit union participation in small business lending programs. Please do not hesitate to contact me at 703-522-4770 if you have any questions in regarding how credit unions help America's small businesses.

Sincerely,



Dan Berger
Senior Vice President for Government Affairs

cc: Members of the Small Business Committee

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