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FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2009

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2009

Thursday, February 7, 2008

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

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Clarke, Ellsworth, Johnson, Sestak, Hirono and Chabot.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning, this hearing will come to order. Today the Committee will review the fiscal year 2009 budget to the Small Business Administration.

The request comes before us as the prospect of the recession looms over the U.S. economy, following from the subprime mortgage crisis that continues to impact every community. And foreclosures are way up.

Consumers are spending less on goods and services as credit tightens. Just last week, the Department of Labor announced the economy had lost 17,000 jobs in January alone. And this week the service sector, the leading driver of new employment opportunities, began showing alarming signs of weakness, slipping to its lowest level since 9-11.

These economic realities demand a budget that invests in small businesses, which have always been at the core of the nation's economic growth. Unfortunately, the President's request does the opposite. It cuts SBA funding by 15 percent and further erodes programs aimed at serving small firms. The timing could not be worse.

One of the most immediate steps we need to stem economic loss is an infusion of capital. That fact is especially clear given a recent survey that shows 80 percent of banks are tightening lending standards. But under the President's proposal, loans will be more costly and interest rates higher.

This is a startling move, considering that during a weak economy is precisely when banks and lenders are most likely to turn to federal loan guarantees. The budget also recommends increasing fees for the 7(a) loan program to the maximum level, saddling small businesses with additional expenses when they can least afford it.

One of the unique dynamics of an economic downturn is a general rise in entrepreneurial activity. That was the case in the early 1990s, when newly formed small businesses helped bring about a wave of American prosperity.

No single initiative has had a greater role in fostering this sort of innovation and commercial activity than the microloan program. Here, too, by terminating funding and sharply increasing interest rates, the President's budget comes up short. Whereas, entrepreneurs of the past, including women and minorities in low-income areas, could look to SBA microloans for capital, this budget turns them away. The result is that, instead of a surge in small business activity to strengthen the economy, job creation will continue to lag. In the area of entrepreneurial development, the administration has taken a similarly wrongheaded approach.

While small businesses can weather a tough economy, doing so requires planning and targeted support. In fact, entrepreneurs receiving this type of assistance are twice as likely to succeed. This is why the small business development centers and the women's business centers were created.

In an economic downturn, having their services readily available is more important than ever. Yet, the President cuts funding for these programs and provides another example of an inadequate budget, resulting in poor policy decisions.

Finally, while many parts of the economy are scaling back their purchasing, the federal marketplace continues to grow. Last year more than $400 billion were spent on contracts for goods and services. That is an increase of six percent over FY 2006 levels. Despite that, the administration has yet to meet a single one of its small business goals, costing entrepreneurs billions in lost contracting opportunities.

We have already seen that this President refuses to implement initiatives, such as the women's procurement program, but his budget also fails to provide funding to correct other problems. For instance, his FY 2009 request does not allow for an adequate number of procurement representatives to protest against fraud and to help small businesses access the federal marketplace. All of this runs counter to responsible use of taxpayer funds and to what our nation's entrepreneurs deserve.

During his recent state of the SBA address, Mr. Preston repeated the President's mantra of doing more with less. This Committee and small businesses across America are tired of the administration promises and of its unmet expectation.

The only thing this budget brings is more cuts to necessary programs. And the only thing it achieves is less with less. Small firms are as resilient as they are innovative. And they are working hard to restore our economy to its full strength. They should not have to do it alone.

After all, investing in entrepreneurs is ultimately about fostering our nation's economic strength. Regrettably, those notions appear lost on this administration and in this budget.

I want to thank administrator Preston for his testimony today. And I recognize ranking member Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you very much and good morning. I would like to thank the Chairwoman for holding this hearing on the Small Business Administration's budget submittal for fiscal year 2009. I also want to welcome back Administrator Preston for his last, I believe, appearance to present the SBA budget.

As members of this Committee recognize, there is a sense of financial anxiety in the country, despite the fact that the fundamentals of the American economy remain strong. One key element in the underlying strength of the American economy is the continued growth of small businesses. Today the Committee is considering whether the SBA will have the necessary resources to provide assistance to small businesses in these uncertain times.

Before addressing the specifics of today's hearing, it is important to note that the small business agenda is significantly broader than the SBA budget itself. The stimulus package, for example, passed in a bipartisan manner by the House included provisions to increase expensing and deduct equipment depreciation for small businesses.

While these incentives are valuable, Congress also must adopt long-term policies to help small businesses, such as making the tax cuts that expire in 2011 permanent. In addition, we need to make health insurance and retirement more affordable for small business owners. These policies have the most impact on economic health of America's entrepreneurs.

As the economy continues to undergo structural changes, it will be important to ensure that individuals with appropriate skills have the necessary access to capital and technical assistance to start their own businesses. Here, the budget of the SBA can play a vital role in maintaining the forward momentum of the American economy.

The SBA enables small businesses to obtain capital when normal commercial financing is not available. This situation may be exacerbated by the current turmoil in the private credit markets. I will be interested in hearing the Administrator's opinion on how the credit situation is affecting the SBA loan portfolio and whether the fiscal year 2009 budget provides sufficient financing authority to handle unforeseen changes in private credit markets.

The SBA also must be prepared to offer technical assistance to entrepreneurs. Individuals who are reorienting their careers may not have the knowledge necessary to start and maintain their businesses. Other small businesses may be interested in expanding due to the availability of skilled workers. I would expect sufficient resources will be available to help these entrepreneurs.

It also is important to note that federal purchase of goods and services can play a vital role in maintaining the health of small businesses in many areas of the country. The Administrator must be prepared to be a strong advocate of small business utilization within the Executive Branch.

In addition, the SBA needs to have sufficient personnel to help small businesses through the complexity of the federal government contracting process. I will be very interested to hear from the Administrator about the resources that will be allocated to the Office of Government Contracting at the agency.

Before yielding back, I must note that simply increasing the funds available to an agency is not the only way to improve its performance. Sometimes original thinking and reallocating existing resources will solve problems while staying within budgetary constraints. Administrator Preston should be thanked for his service, taking on the problems at the SBA, tackling them, improving the operations of the agency, and ultimately helping America's entrepreneurs.

And we welcome you here again, Mr. Preston. And I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you Mr. Chabot.

Now it is my pleasure to welcome Mr. Preston, the Administrator of the United States Small Business Administration. He has served in this capacity since July of 2006 and has testified several times before this Committee. This is the second time Mr. Preston will be testifying regarding the agency's budget request.

Welcome.

Mr. PRESTON. Great. Thank you.

STATEMENT OF MR. STEVEN PRESTON, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. PRESTON. Chairwoman Velázquez, Ranking Member Chabot, other members of the Committee, thank you for inviting me to discuss the fiscal year 2009 budget request.

Two thousand seven was a year of very significant growth and accomplishment at the SBA. This budget reflects our vision for the agency's future to take forward many of the reforms, many of the advances that were the result of our work in '07 and going into '08.

In 2009, the SBA will focus on a reform agenda driven by very clear outcomes, effective customer service, highly trained employees, and accountability. In 2007, the number of loans that the agency approved increased to a record level. SBA's disaster assistance program reengineered its loan-processing operation. We dramatically shortened our response times and dramatically improved service and support for American disaster victims.

SBA worked with federal agencies to improve the accuracy of contracting data and to begin to hold them more accountable for achieving their results. A total of $78 billion in prime contract dollars went to small business.

Over a million small businesses utilize SBA's resource partners: SBDCs, women business centers, and SCORE. I am particularly pleased that after a number of years, as the lowest rated agency in morale in the federal government, we saw a very significant improvement in employee morale in a number of areas, specifically those areas where employees felt their ability to be trained to do their jobs effectively; to be supported in that; and, most significantly, their confidence in the senior leadership team.

In fiscal year 2009, our budget represents a 15.5 percent increase over the 2008 enacted level. It includes a six percent increase in our operating budget. This budget will support a continuation of the broad-based operational reforms that we are making at the agency that is making us more effective and more responsive to our customers, many of which involve extensive process reengineering and technology improvements, under-served market initiatives to

support small business formation and growth in areas of our country with higher levels of poverty and unemployment in order to make sure that we're doing everything we can to energize those local economies, create jobs, and bring sustained investment.

Disaster loan funding is based on a normalized year. And our ability to ensure readiness initiatives continue to make sure that we're prepared to handle any kind of disaster; and, finally, non-credit programs consistent with our prior request, although they do reflect a decline in certain areas based on the '08 enacted levels.

As many of you know, we believe that by dramatically improving levels of service to our partners, like the banks, to our customers, by sharpening our product mix, by depending our penetration in under-served markets, and by tightening our oversight, SBA will expand its impact on small businesses in our country.

I also think it's very important for this Committee to consider the most critical issues to small business' growth and prosperity on a macro level. This is especially important now as our economy undergoes a significant housing market correction combined with high energy prices and market volatility, which has caused a slowing of the economic growth we see in our country.

While we believe our underlying economy continues to be resilient, we believe it will continue to grow. The economic growth package the Congress is considering must be enacted quickly. It must be robust, temporary, and broad-based.

And I want to commend all of you and your colleagues in the House for your prompt consideration of the growth package. And I hope that the Senate will complete its consideration soon so that the rebate payments for individuals and the investment incentives for businesses will help create jobs and stimulate growth in our economy.

In addition to an economic growth plan, I join the President in pushing for long-term economic policies that are in our country's best interest, particularly pro-growth tax system. We need to encourage investment by keeping taxes low. The President's tax cuts have provided very important capital to small business to support economic expansion, job creation, and innovation.

Small businesses face a tax increase of 17 percent, or $4,000, per year on average if the President's tax relief is not made permanent. So I urge you not to ignore this important small business issue as you consider the 2009 fiscal year.

In the future, small businesses in America who represent almost 30 percent of our exports also need and deserve the opportunity to sell their products abroad. And your support for free trade policies will open those markets to U.S. goods and services.

Depending agreements will level the playing field for U.S. exporters by breaking down tariffs and addressing many other important issues, such as intellectual property protections, excessive licensing and inspection requirements, burdensome paperwork, and inconsistent Customs procedures.

International trade means real dollars and real opportunities for small business. With Colombia, in particular, 85 percent of U.S. companies exporting to that company were small and medium-sized with fewer than 500 employees. A lot of U.S. small businesses ac-

count for 30 percent of all of our exports oversees. They account for 35 percent of our exports to Colombia.

The potential for growth under the free trade agreements is very important for small business. According to the U.S. International Trade Commission, U.S. exports to Colombia could be over a billion dollars higher once the U.S.-Colombia TPA is fully implemented. So by leveling the playing field and providing duty-free access for American products, we will help small businesses to expand and compete globally.

I appreciate the cooperation and bipartisan spirit that has brought the administration and Congress together to support our economy. I look forward to continued bipartisanship as we work together to help America's small businesses succeed and grow.

Thank you for inviting me today. I look forward to answering your questions.

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

Chairwoman VELÁZQUEZ. Thank you, Mr. Preston.

Mr. Preston, the economy—and you briefly discussed it in your testimony—is facing some real challenges. GDP growth is flat. Payrolls are declining. The housing correction that you mentioned—I will say the housing mortgage foreclosure mess that we are witnessing—continues to slide. And banks are pulling back on their lending.

In response to this, the SBA's budget proposes cuts in the SBDCs, women's business center and, thus, does nothing to increase capital for entrepreneurs. How are the SBA budget decisions reflective of the economic realities facing our nation?

Mr. PRESTON. Well, I think when you look at the broader economic realities, I think you very appropriately discussed access to capital and it is very important I think to understand that it's not only an issue of banks tightening credit, which we are seeing, although I have not seen your statistic of 80 percent, I've seen something in the 30-35 percent range. We do significant outreach to the banks to talk to them directly about their policies.

So I think as you look forward, I think a couple of things are important to know.

Chairwoman VELÁZQUEZ. Mr. Preston, let me just say that 80 percent number, it's a result of the Fed's survey, not my numbers.

Mr. PRESTON. Okay.

Chairwoman VELÁZQUEZ. It's the Fed's number.

Mr. PRESTON. I would be happy to share my thoughts with you afterwards.

Chairwoman VELÁZQUEZ. Okay.

Mr. PRESTON. What I would tell you is we are undergoing, first of all, very significant outreach efforts to expand the usage of our products in the banks. I'm not confident that the banking community has adopted our products as extensively as they can.

We have rolled out a nationwide calling effort. I'm personally involved at the highest levels of many banks. We're holding bank roundtables to begin to broaden that penetration. The other thing we're beginning to do is to go out with an active recruitment effort to bring in banks that do not use our products today. You in the

past have appropriately noted that many banks left our network following the elimination of low doc, many community banks did.

We launched a pilot last month for a product called Rural Lender Advantage, which is an effort to begin bringing back in the community banks in our country so we can reach that market effectively.

I think the stimulus package that you all have passed in cooperation with the White House is going to be an important driver of investment back into the businesses.

One of the things I want to mention is it's not only banks pulling back on credit. It is banks also seeing a significant decline in requests for credit. In other words, small businesses are showing less of a propensity to invest by having those investment incentives in place, which is what has happened in previous stimulus packages. We believe those companies will begin coming forward requesting credit.

Chairwoman VELÁZQUEZ. I hear you, Mr. Preston, but my question is, at a time when we need to provide additional resources to help people who may lay off and lose their jobs, start up their businesses, why is it that you are cutting the budget for the women's business center and the small business development centers?

Mr. PRESTON. That's right. First of all, we have kept our requests in that area consistent. Obviously the appropriation passed last year increased those budgets after we submitted our budget. But it's the same request we made in '07. It's the same request we made in '08.

The other thing I think that is important to note is both of those networks have extensive fund-raising efforts outside of the federal government. What we provide for them is a significant level of base funding, which they go out and match through other state governments, other private sources.

Chairwoman VELÁZQUEZ. Well, I need for you to help me with the math here. SBDC program is cut by 10 percent, from 97 million to 87 million. It also reduces the women's business program by nearly 10 percent, from 13 million to 11.8. The prime program, which was funded in FY 2008 at 3 million has been zeroed out.

So a cut is a cut. So we are cutting all of these—

Mr. PRESTON. That's right. We're reducing the budget in those programs once again. Those people have significant fund-raising efforts outside of the federal government. We provide a significant base level of funding for them. And many of them have expanded.

Chairwoman VELÁZQUEZ. Okay. So we agree that in this budget, all of these programs have been cut?

Mr. PRESTON. In fact, I mentioned that in my opening statement. So I do agree with you there.

Chairwoman VELÁZQUEZ. In response to the economic downturn, we have seen the Federal Reserve lower rates by one and a quarter points in an eight-day period this January. This was the Fed's most aggressive effort in years to head off a recession.

The point of these cuts is to spur economic activity. We all know that. That was the response of the Feds to the recession that we are witnessing.

The SBA's response to the exact same net of economic circumstances is to increase interest rates for low-income borrowers.

So why are your actions running counter to what the Federal Reserve is doing?

Mr. PRESTON. Well, I would ask for clarification because we guarantee loans that banks make. We don't set the interest rate on those guarantee bonds.

Chairwoman VELÁZQUEZ. Well, the microloan program—

Mr. PRESTON. Well, the microloan program, what we are trying to do there is bring that to a zero subsidy level, which would allow us to expand the program and actually get more capital out there.

Now, there is no doubt that part of doing that is increasing the interest rate, but, as it stands today, it's a relatively limited program with a relatively limited reach.

Chairwoman VELÁZQUEZ. Administrator Preston, the mission of the Small Business Administration is to provide economic tools for businesses to really expand in growth. My question to you is, how can you explain the actions taken by the Small Business Administration regarding the aggressive action taken by the Feds in reducing interest rates? You go and you increase the cost for the microloan borrowers.

Mr. PRESTON. Well, I think the answer to that is we fund a portion of a little over 2,000 loans a year through the microloan program. Last year we made over 100,000 loans through our other programs. Those programs are effected by the Fed. Those interest rates are all floating. We have seen those rates come down 225 basis points. Our overall portfolio is saving over a billion dollars a year from those Fed cuts.

So I think what you have appropriately noted is broader interest rate changes in the economy have a much broader impact on our programs than fees or small adjustments that we can make.

You are focusing on a very small program with a very limited reach.

Chairwoman VELÁZQUEZ. That is very important in low-income communities.

Mr. PRESTON. It is important in low-income communities.

Chairwoman VELÁZQUEZ. It is a program that is used by 67 percent of women, low-income women, in this country.

Mr. PRESTON. I totally appreciate that those microlenders out there are doing a good job. They're working hard. But it is a very expensive program for the federal government. For every dollar that they lend, we pay 88 cents in subsidy and technical assistance.

Chairwoman VELÁZQUEZ. It's very expensive, a $2 million program. And a default rate of what? Two percent? Four percent?

Mr. PRESTON. It's a $17 million program, or 2,200 loans. The default rate on the loans in that program is over ten percent.

Chairwoman VELÁZQUEZ. It sounds to me like there is a disconnect between the response and the action taken by the Federal Reserve and the action taken by Small Business Administration.

Mr. PRESTON. Let me make one comment. Our loans to microlenders have an extremely low default rate. That is very, very small. You know, what I am referring to is their loans to the borrowers.

Chairwoman VELÁZQUEZ. Mr. Preston, you spent a lot of time in your written testimony lauding free trade; in particular, the Colombia agreement. In your FY 2009 budget, cuts U.S. Export Assist-

ance Center for $2.4 million. Since 2002, funding for this center has been cut by 20 percent. And SBA staff has dropped by almost 30 percent. They're not trade specialists budgeted for the major port cities of New York City?

Mr. PRESTON. I think that's a transfer from one account to another, but I'll have to double check that. I apologize.

We're actually expanding our efforts in export. Next month we will be doing a very large trade symposium in Miami. We're going around the country to begin bringing in small businesses in coordination with our other federal partners to make sure that they are using these targets.

Chairwoman VELÁZQUEZ. Then your staff should be taking notes because the major two port cities, New Orleans and New York City, we have not trade specialists there.

Mr. PRESTON. Yes, we do. We have a trade specialist in New Orleans.

Chairwoman VELÁZQUEZ. What about New York?

Mr. PRESTON. I don't know about New York.

Chairwoman VELÁZQUEZ. So you will check on that and get back to us?

Mr. PRESTON. Yes, I will check on that as well.

Chairwoman VELÁZQUEZ. In your testimony, you touted an internal poll that you characterized as showing that employees are 15 percent happier. I am glad to hear that.

Mr. PRESTON. I don't think I mentioned a number.

Chairwoman VELÁZQUEZ. With regard to the poll, it is possible that this increase was due to overall satisfaction in the federal government going up because your poll doesn't compare SBA with any other agencies, like the OPM survey does.

Mr. PRESTON. Our poll is the OPM survey. The federal government has not published the results for the other agencies. We expect to get comparisons in April from them. So that data is not available to us right now.

What we have done is compared our polls to the federal government polls from last year.

Chairwoman VELÁZQUEZ. Okay. So let me ask you, why, then, these questions were not included. Whether the organization is a good place to work; whether the organization's leaders maintain high standards of integrity and honesty; whether arbitrary action, personal favoritism, and coercion for political purposes is tolerated, why didn't you include those questions in your question?

Mr. PRESTON. Our survey is the same—

Chairwoman VELÁZQUEZ. Those questions are included on the OPM survey.

Mr. PRESTON. Well, what happens, ma'am, is every two years, OPM does an expansive survey with about 80 questions. In the interim years, they do a survey with 40 questions. We just use the survey that they put out.

The two senior leadership scores, to give you the two things that actually were scored, respectfully, senior leadership in our agency went up almost 22 percent. Motivation from senior leadership went up almost 18 percent. Those scores are enormously high changes in one year and I believe reflects the improvements that we have made at the agency, much of which—respect doesn't go up if people

think you're not ethical or honest. Those are the two things that came up. We did not manipulate that survey or change it in any way.

Chairwoman VELÁZQUEZ. It just surprises me that OPM includes this type of question to measure how people feel on morale and you didn't include it in your survey.

Mr. PRESTON. It's their survey.

Chairwoman VELÁZQUEZ. Let's move on to the next question.

Mr. PRESTON. It's their survey. It's not our survey. So I'm not sure why there's confusion there.

Chairwoman VELÁZQUEZ. Okay. Mr. Preston, Congress enacted an energy bill last year requiring enhanced assistance for small businesses, energy efficiency, and innovation. So I would like to know whether the agency has implemented these required provisions. In particular, has the agency developed an Energy Star program for small businesses?

Mr. PRESTON. Yes. You're talking about the '07 Act enacted toward the end of last year? Right.

Chairwoman VELÁZQUEZ. Yes.

Mr. PRESTON. Yes, we have made a lot of progress on that. A couple of things I think we were already doing. The express lunch for renewable energy is already available to us. Larger 504 loan limits is going right now. We're drafting the regulation on that.

Chairwoman VELÁZQUEZ. Energy saving debentures?

Mr. PRESTON. Energy saving debenture, we're drafting the regs on that as well, and we have already modeled the cost of that program. Investment in energy saving small business we are drafting the regs on. And there are two provisions in that bill which have not been funded, one of which is the pilot program to reduce 7(a) fees.

Chairwoman VELÁZQUEZ. You mean the renewable fuel capital investment pilot program?

Mr. PRESTON. That is one of them. There is a grant component to that that hasn't been funded. And then also 7(a) fees for a particular kind of energy investment were supposed to be partially waived. And that was not funded. So those are the two challenges we have.

Chairwoman VELÁZQUEZ. The 7(a), those need to be funded, sir. Are you going to need regulation for that?

Mr. PRESTON. My understanding is that the interpretation we have gotten from our legal people is because it's a separate risk category, it would need an appropriation. But we would be happy to talk to your staff to see if you have a different interpretation of it.

So I think we are making progress in all of the areas that require program structuring, drafting regulations, that type of thing. We have a couple of issues on funding.

Chairwoman VELÁZQUEZ. I will come back to you, Mr. Preston, with more questions. Now I recognize Mr. Chabot.

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

I would just note for the record, first of all, that there are consequences when one's party is in the minority. And we generally have our conferences and you have your caucuses. They're the same basic entity. We have ours on Wednesdays or Thursdays, gen-

erally at 9:00, but apparently I was told that we were unable to locate one room on the entire Capitol complex at 9:00 o'clock. So it had to be at 10:00.

So that is one of the reasons that we don't see any Republicans here. So I apologize we don't have more bodies up here, but they're at conference. But small business is important to me. So I am here.

Chairwoman VELÁZQUEZ. Yes.

Mr. CHABOT. But, in any event, there has been some criticism already this morning about the number of export assistance centers. Could you tell us how many businesses actually use the export assistance centers versus the number of small businesses around the country that actually export?

Mr. PRESTON. I don't have that statistic for you, but we do have, I believe it is, 16 export assistance centers. Then the Department of Commerce has well over a hundred of them, which also support small businesses.

I don't have that statistic. I do think it is a very important service we offer, particularly in a time when we see an increase in, continuing increase in, export by small businesses.

Mr. CHABOT. Thank you.

What benefits would small businesses receive from a free trade agreement with Colombia?

Mr. PRESTON. Very significant. First of all, as I mentioned before, over a third of our exports to Colombia are small business. Right now about 92 percent of the imports coming into our country from Colombia come in duty-free. Most of our exports to Colombia have duties, many of them very high, generally in the 5 to 15 percent range. Some go up to 35 percent. So the playing field is not level right now. Goods going that way get charged more money.

We also think over time that we will be able to see higher intellectual property protections. That is very important for our small innovators. You know, if they ship their high intellectual property products overseas without the right kind of protections, it is a significant risk to them.

The other thing I think that is important is when you think of all of the administrative requirements of shipping goods overseas, all of the things that any business has to deal with in a border, it is a significant cost of doing business overseas just handling all of that stuff. And to the extent that those become clearer, more efficient, and that the activities that the border connects but the goods flow more easily, those are very big factors for small business.

We have seen in other situations when we have entered free trade agreements that the percentage of exports from small business actually goes up because a lot more of them find those markets are open for business in a way that's affordable to them.

Mr. CHABOT. Thank you.

Could you explain how your Emerging 200 Program would help inner city urban areas?

Mr. PRESTON. Yes. One of the things we wanted to do was figure out a way to be more targeted in certain urban areas of the country in a way that would really energize not only all small businesses but particularly small businesses that have a high growth profile. And we heard this by doing roundtables in various cities around the country.

A lot of these people have a challenge if they have maybe five people, a great product getting through that growth curve. So what we are trying to do is start out in ten cities, although we will go to more if it makes sense or shrink it if we don't think we have the support, go to those cities, find a group of inner city entrepreneurs with a strong growth profile, effectively put them in the same kind of class so that they would have their own network with each other in sort of a group.

Then what we would bring in is a very heavy dose of training, technical assistance, classroom training, working with them to solve real life issues, and also support their connection with providers of capital.

What we are hoping to do if we are in a city like Cincinnati and you've got 20 small businesses in the city of the core that are good growth businesses and they're working together and we're working with them and helping them get capital and training and assistance, those are the people that are going to create the jobs, that are going to create economic activity, and that hopefully will bring investment into those cities. And as we continue with this program to bring in more businesses each year, we're hoping that it is going to have a significant impact in those urban centers.

Mr. CHABOT. Thank you.

You had mentioned in your opening statement and I mentioned in mine as well the importance of making the tax cuts that were passed in 2001 and 2003 permanent and how important that is to Americans in general but to small businesses in particular. Would you explain why that is, what impact that really has, and what having them essentially go out of existence in 2010-2011, what adverse impact that could potentially bring?

Mr. PRESTON. Yes. As I mentioned, on average, I think the calculation is $4,000 per small business. And I think to some people that might not sound like a lot of money. But, as I try to remind people, small businesses aren't rich people. Small businesses are living off of those businesses for the most part.

So what we're seeing is a number of things happen. And I think it falls into a couple of different categories, but primarily we think that incentives on investment may be impacted or will be impacted, which could deter investment activity. Clearly the marginal tax rates are going to go up significantly.

And I think it is very important to understand that many small businesses are not incorporated. They're Subchapter S corporations, they're partnerships, or it just runs through their personal income statement.

So those marginal tax rates have a direct impact on the small businesses of our country and have a direct impact on their ability, then, to take that money and pay for health care, pay for investment, pay for new employees.

You know, I think we have got terrific programs at the SBA. I think they make a great impact on our country. But when you look at these broad macroeconomic impacts, they I will say have an even greater impact on the ability of small businesses to start to grow, to flourish, and to pay for the growth in their companies.

Mr. CHABOT. Thank you.

Would you discuss the low scores that the SBA received on their customer service surveys in the past, what changes that you have made since you have become the administrator, and the results in those changes, and what the recent surveys have shown as a result of those changes?

Mr. PRESTON. You're talking about the employee satisfaction surveys?

Mr. CHABOT. Yes.

Mr. PRESTON. What we found, you know, we didn't really need a survey. I've gone around the country and spoken with literally thousands of employees. They all have my e-mail address. And, believe me, they use it. And I read every one of those e-mails.

What I consistently found was the agency needed a few things. The agency needed to understand the vision of where it was going and how all that we were doing supported that mission. They needed to see that we were committed to making its programs work. A lot of our programs have not worked effectively. They needed to see that we were committed to them, to their development, their training, and to their career path. And in all of those areas, we have put in place programs to help take the agency forward.

Great example. I know a lot of people on this panel care deeply about the 8(a) program. We had horrible backlogs in our 8(a) certifications. We did not have a process to make sure we were doing annual 8(a) reviews in compliance.

We spent a lot of time cleaning those things up to tell people "You've got to do this on time. You have to be responsive to these people. And you have to be a compliant organization." We began tracking it.

We made it visible to people. And that's what happened in the disaster business when we cleaned that up. That is what is happening right now in our guaranteed purchasing centers. And employees are very excited to see that we are beginning to get after these big issues.

The other thing we have done is we have done extensive training. I mentioned before the scores around job skills, questions like, do you have the skills to do your jobs? Do you see an opportunity to improve your skills? Do you think we provide the opportunity for skill development?

Those scores went up generally 11 to 15 percent in one year. And we haven't even gotten a good part of the agency through the training programs yet. And in the areas that did the training and are getting this kind of training, it's going up even more.

Every employee is getting a personal development plan so that they know we can help them do career pathing. And the other thing we are doing a lot more is we are communicating with them. And people understand their roles, understand how their job is connected to the mission of the agency. They hear a lot more from me.

So, you know, sir, it's on any number of fronts, but it has been a very significant step forward. And I will tell you I am very confident that when the survey gets done next year, it will be even more.

Let me make one more quick point. In '06, the disaster business was not surveyed. Obviously I think we could all agree that was probably one of the agency's biggest challenges post-Katrina.

We surveyed them separately from this group because we wanted to see what they looked like. Their scores are dramatically higher now than the rest of the agency. And that is where the most dramatic reengineering and training occurred.

I think it really has given us confidence that we are on the right track.

Mr. CHABOT. Thank you very much. I yield back.

Chairwoman VELÁZQUEZ. Ms. Hirono?

Ms. HIRONO. Thank you, Madam Chair.

Just a couple of questions. Your 7(a) loan program is the largest. And I note that over the last number of years, in the past five years, the size of these loans has gone down every year since 2001. Is this trend a cause of concern to you?

I mean, one of the things that occurs to me is that if the loans are getting smaller, then perhaps we are decreasing the chances of the business succeeding over time. So is this trend a cause of concern to you?

Mr. PRESTON. Yes.

Ms. HIRONO. And if so, what do you propose to do about it?

Mr. PRESTON. Let me give you some insights into the reason for that trend. And it's also a reason for a trend right now, which is our loan volume is down this year. And it is specifically in those loans.

A number of years ago the agency introduced a product called SBA Express. It was a much more simplified way for banks to make loans, which is a great idea. Many banks adopted this program in a way to automate their loan-making or to simplify it, doing a lot more credit scoring, doing a lot more outreach. And it became a bit of—I don't mean this term to sound negatively. I don't mean it negatively. But it is much more of a churn program; whereas, the other programs I think require a lot more consultation with the borrower.

Because those programs were easy to use, quick to get out the door, easy to reach small businesses, that program went up like crazy. It is generally a small loan program. Most of the lenders use it for in some cases under 50,000, in some cases under 35 depending on the institution.

What we are seeing right now is because of what is happening in the credit marketplace a lot of the kinds of loans that are credit-scored, banks are pulling back on. That's one of the things they're doing. They're increasing their credit score requirements. That is beginning to reduce those small loans.

So what you are probably going to see this year is our loan size creep up. So in some ways I am more concerned about the loan size creeping up because it is more indicative of a pull-back in a particular tier of credit.

So what we are trying to do right now or what we are doing is going to banks all across the country to look at the products that they are using in our portfolio and saying, if you have used these simplified products in the past, let's work with you to redesign how you're using them to make sure that you are reaching small businesses that you may not be reaching today. It's a little bit of a longer explanation, but you have to look a couple of levels deeper to understand what is going on.

Ms. HIRONO. Okay. So you are tracking what is going on, I take it?

Mr. PRESTON. We track it all in detail. Absolutely.

Ms. HIRONO. These loans are very popular, I take it? The SBA Express loans are easier? Although they may be smaller, they're meeting a very specific need of the small business community?

Mr. PRESTON. They do. In a lot of cases, they set up almost like a credit line, an available credit line with the bank, that's simple for them to use if they need it. It tends to be more small working capital-type needs.

Ms. HIRONO. One more question. I think you noted that there are about 800,000 loans last year through all of your SBA programs. And I realize that you do a survey of employee satisfaction. I'm wondering whether you do a survey of these people who have these 800,000 loans to see what their satisfaction level is with SBA and whether they have any constructive suggestions for how we can improve SBA and its programs.

Mr. PRESTON. Yes. There's a challenge there. The banks actually make the loans.

Ms. HIRONO. Okay. Yes.

Mr. PRESTON. Then we guarantee the loans, so we actually don't have that direct relationship with the customer. We have the relationship with the banks. We do have some limitations on our ability to survey those borrowers directly.

What we have done very extensively throughout the country—and I do it personally; my people in the field do it consistently—is have lender roundtables to understand what the bank challenges are, where their concerns are because if we can fix the banks' concerns with our programs, they will adopt our programs and then lend the capital to the borrower.

So we need to make sure that interface with the bank is going well. And many of the initiatives we have in place are directly addressing some of the concerns and very significant challenges in some cases that banks have had in using SBA programs.

Ms. HIRONO. Don't you think that since SBA's purpose is to help small businesses, that some kind of a more direct access to the small business community, where you can get the feedback directly from the community that you are seeking to help,—

Mr. PRESTON. Yes.

Ms. HIRONO. —that that would also be good? And do you have any such programs?

Mr. PRESTON. I think that probably would be helpful. We have a lot of hurdles to get through to do that, but the other thing I would tell you is that a lot of the banks that have SBA loans don't even realize they are SBA loans. They're bank ABC. And then attached to that is a guarantee from the SBA. So they don't necessarily always even understand that we are in the middle of the credit picture.

Ms. HIRONO. The reason I asked this series of questions is because when I talk with small businesses, you're right that, one, they really don't know the availability and the extensiveness of SBA programs or if they do know, then often it's critical of SBA's role in helping them.

Mr. PRESTON. I do think,—and I think it's premature to get into a lot of detail, but we are looking at ways that lenders could come directly, borrowers could come directly to us in ways that we could almost be an advocate for them in the lending picture. We are looking at a number of structures to do that. I would hope that later in the year I would be able to talk in more detail.

The sentiment that you are bringing forward, I think it's not only understanding their problems with SBA. It's also understanding their problems in getting credit more broadly and understanding if we can help them find the right bank. And there are all sorts of challenges in our having that intermediary role, which we are trying to understand.

Often when these people come into a bank, they will go into one bank that they know well when there is a whole competitive group out there that they should be addressing. And we are trying to understand if there are ways that we can help them more in that picture as well.

Ms. HIRONO. Well, I look forward to your further testimony on those kinds of programs—

Mr. PRESTON. Thank you.

Ms. HIRONO. —because I really support SBA's advocacy role on behalf of small businesses.

Mr. PRESTON. Thank you.

Ms. HIRONO. Thank you, Madam Chair. I yield back my time.

Chairwoman VELÁZQUEZ. Mr. Ellsworth?

Mr. ELLSWORTH. Thank you, Madam Chair. Thank you, Mr. Preston, for coming today.

Mr. PRESTON. Thank you.

Mr. ELLSWORTH. I think it was a year ago today that you were here before us. I am a little concerned. I know the Ranking Member Chabot said this might be your last budget proposal. Wouldn't, in fact, if the circumstances were in November that you might actually be here again if—

Mr. PRESTON. I know that the Chairwoman will be lobbying for that heavily.

[Laughter.]

Mr. ELLSWORTH. Well, I believe if I remember correctly, my staff jogged my memory. My question last year was that if you had the magic wand and could plus up or add money to three different areas, what would you do? And you told me that you believed in investing operational effectiveness.

In your short tenure, which I know seems like a lifetime probably, what are the three things now, your accomplishments you are most proud of, the biggest improvements you have made since last year on this day?

Mr. PRESTON. Yes. I think, you know, a lot of people diminish the idea of operational improvements because it sounds like kind of the guts of the operation. But what is important to understand it to the extent that we are an expective service organization that is good to do business with.

The banks will adopt our products. Small businesses will adopt our products, and it will actually be an important vehicle for expanding what we do.

So excellence in service means reaching more small businesses. It's the same reason why you know, an Amazon.com ten years ago was nothing and now they dominate an industry.

The other thing which I think has taken more time, which I actually think we're beginning to see some interesting models and I think throughout the year we'll have some other things, too, which I'm very hopeful that my successor, whoever that may be, will continue, are more innovative ways to get capital into under-served markets more cheaply.

Obviously we're here talking about cuts that we're proposing, financial cuts in a microloan program. We're proposing pullbacks in some areas that actually do reach people that have need for that money. And I think these service providers are very passionate and fill an important role. But they are limited programs, and they are costly.

What we're trying to do is understand and roll out programs that we think will leverage the private sector more, things where the government doesn't have to pay as much money but maybe leverages other people or leverages other programs in the federal government more effectively.

Even though, like I said, I think my successor is going to have to take the ball forward on some of these things, I would love to leave this Committee with a longer-term, bigger impact of our program in areas of our country that need it the most. And I know many people on this Committee are very passionate about that.

So I think those are the two areas that I would speak to.

Mr. ELLSWORTH. Have you had any instances—and I know we talk about more with less and—

Mr. PRESTON. I've never used that phrase. I want to remind you of that.

Mr. ELLSWORTH. Okay. I stand corrected.

Have you found yourself in the last year in your tenure where in your analysis you found a program—and I'm talking about people—where you said, "We just don't need that" and actually wiped it out, got rid of it, and actually sent people packing, employees? Have we still got the same—

Mr. PRESTON. No. You know what we've done? We can take that analogy and adjust it a little bit. What we've done is—

Mr. ELLSWORTH. What was wrong with my analogy?

Mr. PRESTON. Your analogy. I'll use the sentiment of your analogy and give you what we have done—

Mr. ELLSWORTH. Okay.

Mr. PRESTON. —because I don't think I have a great example of that. What we have done is we have said, just sort of making up numbers, "We have 20 people doing this. We're falling behind. Backlogs are building. Should we throw more bodies at this somehow?"

And then we've dug into it and said, "You know what? We're not doing this in a smart way. We're not doing it efficiently. We're not using technology well. We're not monitoring the process so that we can stay on top of how effective it is."

And so what we have done in a lot of places is said those 20 people can not only be more productive. They can actually be better service providers. And we can do things more logically. And we can

bring in technology to make it more efficient. And we can simplify our activity to the outside. We're to take away paper and go electronic in a lot of cases.

So what we have seen is a lot of opportunity to be both more efficient and more effective in what we do with the same people we have by redesigning processes, by leveraging technologies, and by working more effectively with our partners externally.

That has been very exciting. And I think we will continue to make good progress in that area this year.

Mr. ELLSWORTH. On the tax cuts, we hear a lot about that. I know at that same table, we have had people in here who have represented some of the very smallest, guys working on the internet telling t-shirts, the stock was out in their garage or actually in the spare bedroom. Those tax cuts made permanent will assist even the very smallest of those, the garage businesses and the—

Mr. PRESTON. Absolutely. Absolutely.

Mr. ELLSWORTH. What about the trade agreements? We talked about that some. And I voted for Peru. So I guess I'm allowed to bring this up.

What I hear a lot of is that the enforcement is really important. These trade agreements aren't bad, but they're not adequately enforced. In your opinion, are the trade agreements that we've agreed to have been adequate enforced to put American jobs and American businesses in the best light, give us maybe not the advantage? You're saying equal playing field, level playing field.

Mr. PRESTON. Yes.

Mr. ELLSWORTH. Are we adequately enforcing these trade agreements to put America on the level plaything ground?

Mr. PRESTON. Well, I think they have to be enforced. And I think the enforcement comes in some of the softer issues that I mentioned in terms of actually IP protections and things like that.

The one thing I would mention in Colombia, though, is, in addition to some of these soft things, there's just a clear financial issue, which sounds like this. Our goods going over there have heavy tariffs on them. Their goods coming over here do not. It is today just pure financially an unequal playing field. And if those tariffs come down, most of them are coming down immediately. Some of them will have a phase-in period.

That, in and of itself, which I think entails less enforcement issues, will have a big impact on our people.

Mr. ELLSWORTH. I don't have any further questions, Madam Chair.

Thank you, Mr. Preston.

Mr. PRESTON. Thank you.

Chairwoman VELÁZQUEZ. Mr. Johnson?

Mr. JOHNSON. Thank you, Madam Chairwoman.

Mr. Preston, I appreciate the professionalism that you have displayed as you have presented this information to us this morning.

Mr. PRESTON. Thank you.

Mr. JOHNSON. Can you give me an update on the overhaul of the size standards methodology that the SBA has been working on for the past few years?

Mr. PRESTON. Well, the size standard initiative that we have kicked off at the SBA recently has just been kicked off in the last

few months. What has happened over the past several years is occasionally—or I shouldn't say occasionally but periodically the agency will consider a size category that needs to be updated, for whatever reason, and then address it.

What we are trying to do right now is go through in a much more systematic way all the size standards in the agency. And we are trying to kind of do it in bite-sized chunks. We're not trying to take everything out at one time but every quarter look at a handful of industries to ensure that we have something that reflects the current economy.

And so what I would hope is that the first set of size standards that we are going to recommend be updated would be out there in the next two to three months. But we are working right now on an interagency basis to make sure that we're vetting those appropriately and getting the right work done there. It requires a lot of economic analysis, and regulatory processes, as you can appreciate, take some time.

What then you should expect to see is every three to four months another group of recommended updates and size standards coming in so that we're taking them in phases and ensuring that we can get through most of the size standards within the next 18 months or so.

Mr. JOHNSON. Given the fact that federal contract procurement for small businesses relies heavily on these size standards, is it fair to conclude that we have been kind of spinning our wheels, then, for the last few years?

Mr. PRESTON. We haven't been spinning our wheels on this project.

Mr. JOHNSON. Not for the last few months but over the last few years.

Mr. PRESTON. Yes. Well, what I think may happen,—and I can't tell you because I just don't know. And I think, in fact, many of you have been dealing with these issues for many, many years.

What I am concerned about is that there are pent-up issues that we haven't addressed on the size standards. And so what I hope to do throughout this process is then bring those size standards up to the appropriate level in today's economy.

I really don't think the agency—

Mr. JOHNSON. It has been languishing over the—

Mr. PRESTON. Yes. I don't think there's been a systematic effort to look at the whole group.

Mr. JOHNSON. And you consider that to be very important to the small business community?

Mr. PRESTON. I think it is very important to the small business community. I get concerned that, you know, when a small business is a dollar over that ceiling, they're no longer a small business. They no longer qualify as a small business contractor when, in fact, in the context of that industry, they may really be a small business.

Mr. JOHNSON. Yes. But, I mean, the fact that we want to identify or we want to have some size standards and ways of identifying small businesses, it is important for the small businesses so that they don't crowded out by the—

Mr. PRESTON. I think you're right, yes.

Mr. JOHNSON. —by the larger businesses. And you've said that you feel that that is a priority for your agency to tighten up these size standards. Why is there no separate expense itemized for this project in the budget?

Mr. PRESTON. Because I don't think it needs a separate expense line item. What we will be doing is leveraging people that we have on our team right now. I would expect we would be leveraging other people in the federal government who are experts in procurement and in size standard types of issues.

Mr. JOHNSON. How much funding do you think it will take for the agency to complete this effort so that the new size standards can be established across the board?

Mr. PRESTON. I don't have a number for you. You know, what it requires is an economist working with a team to analyze the industries and analyze what represents small. But we would be happy to get back to you and do an analysis to estimate that.

I will also say that it is important to note because I think this is going to take a period of time, and I don't think it will be done in my time at the SBA. I hope that we have a methodology in place that we have a lot of things completed and in the pipeline, but I think it will be going into next year as well.

Mr. JOHNSON. Well, I noticed that your budget request includes support for an increased number of staff positions, 24 specifically. Are any of those 24 positions dedicated to this issue?

Mr. PRESTON. I don't believe any of those are specifically dedicated to this issue.

Mr. JOHNSON. What would those 24 additional staff be assigned to do?

Mr. PRESTON. Most of the staff increases are in two areas: Number one, in our field organization. Throughout this past year and also going into this year, we have expanded our staffing in our district offices and in our PCRs, procurement center representatives. And we're trying to get up to targeted levels to make sure that we can handle the volume in the field.

So that's a big piece of it. The second piece of it, we expect to add some staff in our processing centers, which work on high-volume activities, like approving loans, purchasing loans when banks ask us to honor guarantee, servicing loans, that kind of thing, because our volume has gone up significantly over the last number of years. Even though we continue to increase our volume through efficiencies, I think we also do need to add more people, not to the same degree as the growth.

Mr. JOHNSON. Thank you, Mr. Preston.

Mr. PRESTON. Thank you.

Chairwoman VELÁZQUEZ. Ms. Clarke?

Ms. CLARKE. Thank you, Madam Chair, Ranking Member Chabot.

Mr. Preston, I just kind of find it ironic that in this period of economic distress and the fight for stimulus, that the FY 2009 SBA budget requests no funding from many programs that are so essential to minority and women entrepreneurs. I think the impact of this kind of decision-making will compound financial hardship and distress and provide many obstacles to small businesses in their at-

tempt to access affordable capital, which is important to their growth and, by extension, the potential for job creation.

In addition to that, this administration continues to propose cuts to funding for many programs, including the HUBZone, as well as rolling funding into overall agency operating budget.

Isn't it true that this reduces the transparency and creates uncertainty as to how much funding the programs will actually receive? And then how can we be assured that you're intended focus to ensure the HUBZone program will be accessible to entrepreneurs in the most under-served markets?

Mr. PRESTON. Well, your point on the HUBZone program is well-taken. Right now there is a line item in the budget for HUBZone. What I would tell you is that the line item in the HUBZone budget is only a fraction of what we do in HUBZone. Most of that, most of that budget, is already in our core budget. And we continue to I think be committed to that program. And personally I think it's one of our most important contracting programs because it gets contrasted businesses who are in areas of our country that need it the most.

So I can assure you I am completely committed to the HUBZone business. And this really takes a smaller percentage of the funding that, for some reason, for years has been a line item on a schedule and brings it back with the funding of the rest of the HUBZone office.

On your earlier comment, you know, I have to acknowledge we have proposed a budget where funds for certain programs that reach needy areas are being reduced. And what we are trying to do is understand or actually come up with a solution so that hopefully we could get more capital to those areas in a less costly manner.

And one of the challenges we have in I think the program you are referring to is we provide a significant amount of grant money and we provide subsidized loans, which is very costly relative to the amount of capital we put out there.

If you look at our other programs, like our community express loan, which also goes very heavily into minorities and women under-served markets and provides capital technical assistance, that now provides almost three times as many loans as microloans, very deeply penetrating those markets.

Ms. CLARKE. I can appreciate that, Administrator Preston. My whole concern is that you recognize that there is a need. You're working on a solution in the midst of an economic crisis. And you are here to advocate for a stimulus. Yet, your action with regard to these areas that are really impacted is that we're working on it.

Mr. PRESTON. Well, no.

Ms. CLARKE. And I'm just wondering how much we make these things a priority within the administration, within the SBA when we know that this is a major part of our nation's economic strain right now.

Mr. PRESTON. Right, right.

Ms. CLARKE. So I am just finding it a bit hard to understand why it is taking so long or what the challenge is. You are talking about leveraging of dollars and the cost for administering these programs versus I guess the return on the program.

You know, I am sure there are a lot of talented people at the SBA. And I'm sure they have seen best practices as established through the SBDCs and other agencies that you interact with. Why wouldn't there be sort of an effort made, a concerted effort, to develop the program that you believe would most effectively impact on these communities and just get it going?

Mr. PRESTON. I think there is a lot going. Our community express products—

Ms. CLARKE. I've heard about the community express program. What I—

Mr. PRESTON. It's our fastest growing product.

Ms. CLARKE. All well and good. I'm speaking specifically to these communities and the programs that have been cut in the budget. These programs have been very effective. While they may not have been cost-effective in your estimation, they have been effective in reaching many of the businesses in urban communities that are struggling right now.

And so you decide that you're going to cut it. Is it your testimony today that you are replacing it with this express loan program that you're talking about or is there another product that you are in the process of developing?

Mr. PRESTON. It's my testimony today that our community express product right now is already a multiple of the program you're referring to and it's our fastest growing product.

Ms. CLARKE. And that's what you're replacing it with?

Mr. PRESTON. And we are rolling out—in fact, we are testing it in eight states right now a new program for community lenders to bring them back into the program that significantly simplifies their ability to get capital to small businesses.

And we are launching this spring a program to reach into ten inner cities of the country and dramatically expand our focus on high-growth inner city entrepreneurs.

And we have partnered with the venture capital community. And I want to remind you that we made over $700 million in investments last year through SBICs in businesses and competitive opportunity gap areas.

Aside from that, we just announced a partnership with a venture capital community to connect inner city small businesses with venture capitalists.

So there is stuff on the drawing board, but there are a lot of things that are successful and are right now in the launch phase that I think are pretty exciting for the SBA for the people we serve.

Ms. CLARKE. When do you see your target date of these various I guess permutations of what used to be in terms of venture capital and all of the other programs that you just described? You said that you were talking about spring?

Mr. PRESTON. Well, venture capital, like I said, we put over $700 million into competitive opportunity gap businesses last year. That's real. That happens every year. It's a massive—

Ms. CLARKE. And how is information about that getting into the communities? Is that through the SBDCs and the MBCs?

Mr. PRESTON. It's through the SBICs.

Ms. CLARKE. Okay. And you've cut those, right?

Mr. PRESTON. We haven't cut SBICs. A participating securities program was cut a number of years ago.

Ms. CLARKE. If you keep their funding flat and there is inflation, in effect, that's a cut.

Mr. PRESTON. SBICs is a zero subsidy program. So they can continue to grow.

Ms. CLARKE. But you fund SBDCs, don't you?

Mr. PRESTON. Yes, we can. Yes, we do.

Ms. CLARKE. Right. And the funding for them has been flat. Isn't that correct?

Mr. PRESTON. The funding for that is not limited. It's a zero subsidy program. So the good news about that is we can expand it.

Ms. CLARKE. And is that part of your proposal to expand it, especially in light of the venture capital program you are talking about?

Mr. PRESTON. We are free to expand it. And the other program I mentioned doesn't put us as the actual provider of the capital. It works with our 68 district offices across the country to find inner city businesses and connect them with venture capitalists who may be SBICs or may not be SBICs.

Ms. CLARKE. Well, let me just say this. I'm glad to hear that there is a lot of I guess discussion and a lot of thinking around these issues.

My concern is that we're talking economic stimulus. And in many communities right now, if we're talking targeted temporary and timely, the time is now. And it just doesn't appear based on the budget that has been proposed and what you have presented today that those communities are part of what we're looking at and those entrepreneurs specifically in terms of involvement in the stimulus.

And I hope that there will be a way that you bring all of your forces together to come up with a real solution for the type of products that these communities really need at this time and these entrepreneurs specifically need at this time. You seem to have the talent and ability to do that. And I am counting on you to do so.

Mr. PRESTON. Well, I appreciate that.

Ms. CLARKE. Thank you very much, Madam Chair.

Mr. PRESTON. We would love to come and brief you personally on what we are doing. I do want to say that somewhere between five and six billion dollars of capital went to businesses in high priority, high unemployment areas of the country last year through the SBA. It is a very significant part of what we do today.

And I understand your concern about some of the programs we address, but most of what we do here is not on the drawing board. Most of what we do here is real money going to real people in a very significant amount.

Chairwoman VELÁZQUEZ. Mr. Preston, I just would like for the record to reflect, Mr. Preston, that Ms. Clarke was talking about SBDCs, you were talking about SBIC. Yes, SBIC is at a zero subsidy. SBDCs got cut under funding.

Now I recognize Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair.

Just a few more questions. Has the SBA considered moving its headquarters into a building where there are other federal agencies? How would the cost-effectiveness of that be versus, I guess,

leasing, as you are now, from a private entity that I guess is non-secure or not terribly secure?

Mr. PRESTON. Well, there are certain guidelines around which we locate our offices. And generally they're supposed to be in business districts. And generally they're supposed to be in federal office buildings.

In many cases, locating in a federal office building makes us tough to find. You know, we may be in some kind of a high rise. People go through big magnetometers. They don't know where we are. They can't find us.

So in certain cases, we have moved out of federal space into more accessible space, where we think we are either located closer to other service providers that do similar things to what we do, like state economic authorities, the Department of Commerce, EDA people, that type of thing, or in more central business districts, so that people actually, you know, see where we are and can come in and seek help.

In many cases, it is more cost-effective for us to move out of federal buildings, but for the most part we continue to be located in federal buildings.

Mr. CHABOT. Thank you.

What happens if a particular office in the SBA does not meet its performance goals? What sort of action do you take in that circumstance?

Mr. PRESTON. Well, what we do is we provide incentives for offices that meet their goals. For example, this past year, there were six core goals that these offices had. And offices that met five or six goals got an additional bonus for their people.

So what I would tell you is we probably use more of a carrot than a stick. And we continue, actually, to work with our entire field network to collaborate with them on what they think are the most valuable programs to have in place to help them meet those goals.

The other thing we have done historically, which we are revising a little bit right now, is looked at other kinds of awards that they can win based on whatever objective we have in place.

Mr. CHABOT. Thank you.

We had discussed the free trade agreement for Colombia before. Would you support the SBA being given a seat on the Trade Promotion Coordinating Committee?

Mr. PRESTON. I am not sure. I would have to understand a little bit more. I think we have a great deal of access to people at the U.S. Trade Rep, to the Department of Commerce, in the White House. We have had a great opportunity to provide them with our views on many of the issues we're facing today right now.

I would have to get back to you—

Mr. CHABOT. Okay.

Mr. PRESTON. —and take a look at whether or not that specific opportunity would move the needle or not. I just don't have a good answer for you.

Mr. CHABOT. Okay. Is there any effort to measure the quality of SCORE counselors and if you find any inadequate counselors to have them removed?

Mr. PRESTON. Okay. I've just been informed by my staff that I blew the last question because we actually have a seat on the TPCC right now.

Mr. CHABOT. Oh, you do now?

Mr. PRESTON. So I apologize for that.

Mr. CHABOT. Good.

Mr. PRESTON. The SCORE—

Mr. CHABOT. I assume you would like to keep it?

Mr. PRESTON. We would like to keep it. Yes, I support it.

Mr. CHABOT. Okay. Good.

Mr. PRESTON. SCORE runs its program. And, as best I know, those counselors are managed by the local SCORE offices. And so other than that, I'm not aware that we have specific oversight on any individuals that actually work for SCORE.

Mr. CHABOT. One of the major issues that firms owned by either National Guard's folks or Reserve entrepreneurs is the continuation of businesses when they're called to active duty. Could you briefly tell us what programs the SBA has or has instituted to provide business continuation assistance and training when the head of the firm is called to active duty?

Mr. PRESTON. Well, yes. Obviously through the resource partner network and through our own local offices, we can provide counseling and training.

I think the most exciting program we have but also the most under-used program we have in this area is the military reservist economic entry loan program. Effectively what happens is an owner of a small business or somebody who works for a small business, if that person is called up for active duty and the small business suffers economic injury as a result of their being called up, they can actually qualify for an SBA disaster loan. And those are, as you know, very low-interest loans. They're directly lent by the SBA. And it's a program that we have worked to promote through the other agencies, through significant outreach initiatives. And the volume in that program is still low.

So we continue to look for avenues to make people aware of it. But what ends up happening is they get called up for active duty. And then, all of a sudden, they say, "Well, you know, I heard about this loan. I have to get my paperwork together to apply for it." And it's something that they're either not aware of or they don't have time to pull their stuff together.

So we're looking at ways to improve the outreach but also make it easier for them to apply. And, frankly, I think, you know, this has been a real area of disappointment for me because I think it is a terrific program we offer that is just under-utilized.

Mr. CHABOT. Okay. How is the SBA responding to the finding of the Inspector General concerning problems in the HUBZone program?

Mr. PRESTON. We are doing a number of things, but it's primarily focused around making sure we're doing our work on reviews of the HUBZone program on a regular basis and ensuring we have the right kind of information about them to make the assessments.

I would be happy to follow up with questions for the record to give you more detail on that.

Mr. CHABOT. I yield back. Thank you very much, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Sestak?

Mr. SESTAK. Thanks, Madam Chair.

I wanted to ask a question because President Bush seems concerned, rightfully so, about why are we in a recession with an economic stimulus plan. And I wanted to ask you at this time that I honestly believe because you may that more and more businesses if this is so are going to need aid, small businesses, and not necessarily aid in more loans if the business isn't out there or grants but probably more aid in the sense of reaching out to you to say, "How can we properly structure ourselves to keep afloat during this troubling time that the President has indicated is coming?"

So in view of having the disaster down in Katrina and maybe the SBA was not as well-prepared as it might have been to face this in that disaster, potentially for a lot of small businesses, this could be a disaster coming up. It might not be, but it could be. How are you marshalling your forces to prepare for small businesses with regard to that readiness to help them with a lot more reaching out potentially in this recession and then managing, given that kind of technical assistance?

Mr. PRESTON. Well, clearly most of the technical assistance that we provide is through resource partners. And many of the kinds of issues that small businesses face in a recession are the very kinds of issues that they deal with on a regular basis. I think this is just, you know—

Mr. SESTAK. Probably a lot more quantity now.

Mr. PRESTON. More quantity potentially now.

Mr. SESTAK. So what specifically are you doing to prepare for this?

Mr. PRESTON. Specifically I think the one area I think where we are freeing up our own resources internally to do more business development work—and, you know, this may be a little bit far afield, but we are putting in place a number of things in our district offices to do two things, number one, free up people's time to do more outreach and counseling; for example, in our 8(a) program. Right now, they're buried with compliance work.

Mr. SESTAK. Well, we need to be doing that without regard to the upcoming recession.

Mr. PRESTON. Yes. What I'm telling you is, though, that right now we have a number of things in place where we're trying to take them away from administrative work to free them up for more outreach work. And that is coinciding with this. It's not necessarily a specific mobilization as much as an opportunity that they should be doing anyway.

That is primarily going to affect those businesses in our 8(a) program. And that is probably the primary area. I think much of the outreach we're doing right now—

Mr. SESTAK. No. That's fine. The reason I was asking, Mr. Preston, is it just seems to me we know we are going to have some challenges there. And if we do care about trying to help them keep afloat, we might expect that there might be more people about to get into a life raft, you know, so to speak, reaching out for aid.

Then when I look at your programs, I think what Congresswoman Clarke said. And I watched that you zeroed out the microloan technical assistance program. And now you're proposing

that it should be, "Oh, by the way," but it's a separate issue, no free subsidy anymore. Let's have them help pay for this.

But my question is you then go on in your budget you submitted and said, "Okay. We're zeroing out the technical assistance program for microloans. And, by the way, they can then rely," you say in your footnote, "in the SBDC and WBC." But, yet, you in your technical assistance zero-out score have a ten percent decrease in SBDC and WBC.

So how are you taking those microloan people that you say right here in your document are going to rely upon those three more but you decrease them in resources, just at a time that they might be reaching out more as we go into a recession?

Mr. PRESTON. Right. Point well-taken. I would make a couple of comments on that. First of all, the number of new micro borrowers featured in that program is just under 2,000. The number of people our network counsels in a particular year is over a million. So we don't view that as being a significant burden. It is a fraction of one percent of the people that they already counsel.

Mr. SESTAK. Could it be more?

Mr. PRESTON. I do recognize,—and I mentioned this in my opening remarks,—the money we requested in the '09 budget is consistent with what we requested in the '07 and '08. Now, in '08, an appropriation, an increase in our appropriation, occurred subsequent to our submission in the budget. So we did have a timing challenge there.

The other thing I think it's important to understand is we are not the only source of funding for these small business development centers. They all get matched funding elsewhere. They all have other funding sources in a time when—

Mr. SESTAK. I guess I am questioning the priorities. I mean, SBDCs, they already aren't having enough hours to match the demand. And now you're decreasing them. "And, oh, by the way," you're saying, "you micro people, you move over here, too. And a recession is coming down the road."

I guess my other question kind of has to do in similarity. You know, 22 percent of the populace that is in Medicare causes 67 percent of the cost. They're all the ones with all the chronic conditions. Yet, we treat them just like we do the less costly 80-some percent.

So my question is you kind of dismiss, well, these are kind of small. And we're really doing so much here in this community thing. Maybe we do need to focus some resources on them because those are the kinds of $25,000 loans that really can begin to make a difference. But that is more of a judgment.

I guess my other question had to do with your—unless you talked about the emerging 200 initiative.

Mr. PRESTON. We did, but—

Mr. SESTAK. Could I?

Mr. PRESTON. Yes.

Mr. SESTAK. You're going to be 2.5 million into this. And my limited understanding of this 2.5 million is it's going to go with a new set of partners kind of. You're going to go to cities, correct?

Mr. PRESTON. Yes. It's 250,000 of our money. We would probably—

Mr. SESTAK. Of 2.5 million total for 10 cities, right?

Mr. PRESTON. I think the entire amount is 250,000 right now,—

Mr. SESTAK. Okay. I thought it was ten cities.

Mr. PRESTON. —which would leverage with other resources externally.

Mr. SESTAK. So you're only going to do among 10 cities 250,000?

Mr. PRESTON. That will be the pilot. We would hope—

Mr. SESTAK. Now I understand. Okay. Then I'll back off on my question, then. I was curious because with such a new partner and you put 2.5 million into it without knowing.

I guess my only other question I had is when you looked at the reauthorization of the SBA, if you take out—you only put in $160,000 for disaster loans.

Mr. PRESTON. A hundred and sixty million.

Mr. SESTAK. A hundred and sixty million. I was a poli sci major.

Mr. PRESTON. That's okay.

Mr. SESTAK. A hundred and sixty million. And you subtract that from the 657 million. Actually, your budget is less than the previous year, correct?

Mr. PRESTON. There are two pieces. What I would say is the budget is more for us to be able to run the agency because we have expanded some people and done some things there. The budget is less in our grant programs, which you have all noted through the SBDCs and women's business centers. So those are the two pieces.

Mr. SESTAK. All right. I guess my question is in that 160 million, my understanding is you came up with that by doing a 10-year average?

Mr. PRESTON. Yes. There's another significant piece. So yes, we take a ten-year average. We take out—

Mr. SESTAK. My only question is just the ten question. We have a new type of loan, don't we, the drought loan? Did you take that into account since we didn't have any way to look backwards?

Mr. PRESTON. I would have to get back to you on what the calculation included.

Mr. SESTAK. All right. And I think that we are probably out of time anyway. Thank you very much. I was just most taken by, I guess, you know, your page 23, where all of the non-credit programs are just either flat-lined or slashes. And then in your footnote, you say, "Oh, by the way, these other ones that we slashed are going to pick up the load for microloans and all." It just seems like we are disenfranchising them, what kind of is important around me, the City of Chester and other places, where microloans go a long way.

Thank you very much.

Chairwoman VELÁZQUEZ. Mr. Preston, I do have some other questions. You know, this budget proposes to raises in the 7(a) program to the maximum statutory limit. After that, it cannot be raised any further. That means that if there are unanticipated defaults or shifts in the portfolio that occur, the costs will go up and you will have nowhere else to go. So you might have to shut down the program.

Mr. PRESTON. This budget takes us all the way through to September of 2009. So I think somewhere in the ensuing year and a half, if we thought that was a risk, we would certainly address it with you all or in some way.

Chairwoman VELÁZQUEZ. But when you came before us or the administration in 2000, you asked us to support to take the program to a zero subsidy and that that will take care.

Mr. PRESTON. Will take care of what?

Chairwoman VELÁZQUEZ. Of the risk of a shutdown, of the program being shut down again.

Mr. PRESTON. Well, I think there are two different things. What you are referring to is when the program was subsidized and it ran out of money in the middle of the year and we had to call up banks and tell them to stop making loans.

I would hope that as we get into the year and understand what is happening in the portfolio, we would have a long enough lead time to work with the administration, with Congress to address an issue should it arise. I don't think it's a foregone conclusion that it will.

Chairwoman VELÁZQUEZ. In 2004, the program was shut down. So my question to you is, if we are going to raise the fees to the maximum allowable level, then if you confront unanticipated defaults in the portfolio, where would you go?

Mr. PRESTON. Well, ma'am, we would know almost a year ahead of time whether or not the forecast would take it to that point. There would be plenty of time to address the issue.

Now, what I would tell you is a lot of what we are seeing in our portfolio right now, it's increasingly being weighted in some cases toward PLP, which is a much higher performance portion of the portfolio. So I certainly wouldn't want to leave you with the idea that it's a foregone conclusion that we will be in that situation.

Chairwoman VELÁZQUEZ. Let me ask you this hypothetical question. Since you are unable to raise fees any higher and if you confront problems with the problem, you will have two options, either requesting an appropriation or shutting down the program, which one will you choose?

Mr. PRESTON. Ma'am, or raising the fee limit, right? So, as I mentioned, that is going to be well beyond my time. This is something that is not going to be upon us for a year and a half. And we will understand well ahead of time what the projections show.

Chairwoman VELÁZQUEZ. Okay. So you are telling me there will be no problems with the program.

Mr. PRESTON. No. I don't think I said that. I think I said we will have ample time to work through the issue with you.

Chairwoman VELÁZQUEZ. In 2004, it didn't happen.

Mr. PRESTON. Well, that was because—

Chairwoman VELÁZQUEZ. And the program was shut down.

Mr. PRESTON. —the program was subsidized and it ran out of money. It's a very different issue.

Chairwoman VELÁZQUEZ. I want to ask you about the HUBZone program. We held a hearing on the HUBZone program and we talked about the potential for fraud with the HUBZone program and other programs, such as the disaster program.

I want to ask you—and I want a "Yes" or "No" answer—do you believe that the HUBZone program has sufficient internal controls to prevent fraud?

Mr. PRESTON. Fraud in what way?

Chairwoman VELÁZQUEZ. The Inspector General did a study that showed that there were problems with the program, with the HUBZone program. Do you recall that—

Mr. PRESTON. Yes, I do.

Chairwoman VELÁZQUEZ. —report from the General Accounting Office?

Mr. PRESTON. I think we have sufficient internal resources to address this issue.

Chairwoman VELÁZQUEZ. Businesses are participating in the program that are not eligible to be in the program. So my question to you is, do you feel that the program has sufficient internal control to prevent fraud?

Mr. PRESTON. I think we're addressing all of those—

Chairwoman VELÁZQUEZ. Give me a "Yes" or "No," and then you can clarify the question or your answer.

Mr. PRESTON. I believe we are on the pathway of dealing with all of those issues. I would have to take a look at specifically the updates that address those IG concerns to give you a clear answer.

Chairwoman VELÁZQUEZ. Months ago we held a hearing on this very issue.

Mr. PRESTON. I would be happy to take it as a question for the record in this hearing, but I'm prepared to talk about the budget.

Chairwoman VELÁZQUEZ. Let me ask you—okay.

Mr. PRESTON. If you would like me to get into this, I would be happy to follow up with you.

Chairwoman VELÁZQUEZ. Okay. In reviewing your efforts to make sure money is used in the most judicious manner, the Committee examined the award made under the 7(j) management and technical assistance program for FY 2007. One, in particular, stood out. More than 90 percent of the funding went to one company. This business was started in February of 2006 and was approved for the 8(a) program in June of 2006 4 months later.

Since there is a two-year-in-business requirement for 8(a), we looked a little further. It turns out that the owner of this company served in a political appointee capacity from 2003 until the month before the business was begun.

Given these facts, I ask you, will you make a commitment to this Committee to have the SBA's Inspector General review this case to determine whether this individual's political connections allow longstanding regulations to be waived?

Mr. PRESTON. Yes. I will. I'm not at all familiar with the situation. I wasn't aware of that. And I would be happy to follow up on that from this Committee.

Chairwoman VELÁZQUEZ. Yes. But my question to you is if you will make a commitment to the Committee that the SBA's Inspector General will review this.

Mr. PRESTON. Yes. I need to make a judgment based on looking at it, but you can always request that from the Inspector General as well if you feel it's necessary.

Chairwoman VELÁZQUEZ. You can bet that I will.

Mr. PRESTON. I am just not familiar with the situation.

Chairwoman VELÁZQUEZ. Okay. Well, I will be submitting other questions for you to submit back to the Committee. And with that, this hearing adjourns.

Mr. PRESTON. Thank you.

[Whereupon, at 11:39 a.m., the foregoing matter was concluded.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Full Committee Budget Hearing
Thursday, February 7, 2007

Today, the committee will review the Fiscal Year 2009 budget for the Small Business Administration. The request comes before us as the prospect of a recession looms over the U.S. economy.

Fallout from the sub-prime mortgage crisis continues to impact every community, and foreclosures are way up. Consumers are spending less on goods and services as credit tightens. Just last week, the Department of Labor announced the economy had lost 17,000 jobs in January alone. And this week, the service sector—the leading driver of new employment opportunities—began showing alarming signs of weakness; slipping to its lowest level since 9/11.

These economic realities demand a budget that invests in small businesses, which have always been at the core of the nation's economic growth. Unfortunately, the President's request does the opposite. It cuts SBA's funding by 15% and further erodes programs aimed at serving small firms. The timing could not be worse.

One of the most immediate steps we need to stem economic loss is an infusion of capital. That fact is especially clear given a recent survey that shows 80% of banks are tightening lending standards. But under the President's proposal, loans would be more costly and interest rates higher.

This is a startling move, considering that during a weak economy is precisely when banks and lenders are most likely to turn to federal loan guarantees. The budget also recommends increasing fees for the 7(a) loan program to the maximum level, saddling small businesses with additional expenses when they can least afford it.

One of the unique dynamics of an economic downturn is a general rise in entrepreneurial activity. That was the case in the early 1990's, when newly formed small businesses helped bring about a wave of American prosperity. No single initiative has had a greater role in fostering this sort of innovation and commercial activity than the Microloan program.

Here too, by terminating funding and sharply increasing interest rates, the President's budget comes up short. Whereas entrepreneurs of the past—including women and minorities in low-income areas—could look to SBA microloans for capital, this budget turns them away. The result is that instead of a surge in small business activity to strengthen the economy, job creation will continue to lag.

In the area of entrepreneurial development, the Administration has taken a similarly wrong-headed approach.

While small businesses can weather a tough economy, doing so requires planning and targeted support. In fact, entrepreneurs receiving this type of assistance are twice as likely to succeed.

This is why the Small Business Development Centers and the Women's Business Centers were created. In an economic downturn, having their services readily available is more important than ever.

Yet the President cuts funding for these programs, and provides another example of how his budget's penny-pinching results in foolish policies.

Finally, while many parts of the economy are scaling back their purchasing, the federal marketplace continues to grow. Last year, more than $400 billion were spent on contracts for goods and services. That's an increase of six percent over FY 2006 levels. Despite that, the Administration has yet to meet a single one of its small business goals, costing entrepreneurs billions in lost contracting opportunities.

We've already seen that this President refuses to implement initiatives such as the Women's procurement program, but his budget also fails to provide funding to correct other problems.

For instance, his FY2009 request does not allow for an adequate number of procurement representatives to protect against fraud and help small businesses access the federal marketplace. All of this runs counter to responsible use of tax-payer funds and to what our nation's entrepreneurs deserve.

During his recent State of the SBA address, Mr. Preston repeated the President's mantra of doing "more with less." This committee and small businesses across America are tired of the Administration's promises and of its unmet expectations. The only thing this budget brings is more cuts to necessary programs, and the only thing it achieves is "less with less."

Small firms are as resilient as they are innovative, and they are working hard to restore our economy to its full strength. They should not have to do it alone. After all, investing in entrepreneurs is ultimately about fostering our nation's economic strength. Regrettably, those notions appear lost on this Administration and in this budget.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE
Representative Steve Chabot, Republican Leader
Thursday, February 7, 2008

Opening Statement of Ranking Member Steve Chabot

The Small Business Administration's Budget for Fiscal Year 2009

Good morning and I would like to thank the Chairwoman for holding this hearing on the Small Business Administration's budget submittal for FY 2009. And I also would like to welcome back Administrator Preston for his last appearance to present the SBA budget.

As members of this Committee recognize, there is a sense of financial anxiety in the country despite the fact that the fundamentals of the American economy remain strong. One key element in the underlying strength of the American economy is the continued growth of small businesses. Today, the Committee is considering whether the SBA will have the necessary resources to provide assistance to small businesses in these uncertain times.

Before addressing the specifics of today's hearing, it is important to note that the small business agenda is significantly broader than the SBA budget. The stimulus package passed in a bipartisan manner by the House included provisions to increase expensing and deduct equipment depreciation for small businesses.

While these incentives are valuable, Congress also must adopt long-term policies to help small businesses, such as making the tax cuts that expire in 2011 permanent. In addition, we need to make health insurance and retirement more affordable for small business owners. These policies have the most impact on the economic health of America's entrepreneurs.

As the economy continues to undergo structural changes, it will be important to ensure that individuals with appropriate skills have the necessary access to capital and technical assistance to start their own businesses. Here, the budget of the SBA can play a vital role in maintaining the forward momentum of the American economy.

The SBA enables small businesses to obtain capital when normal commercial financing is not available. This situation may be exacerbated by the current turmoil in the private credit markets. I will be interested in hearing the Administrator's opinion on how the credit situation is affecting the SBA loan portfolio and whether the FY 2009 budget provides sufficient financing authority to handle unforeseen changes in private credit markets.

The SBA also must be prepared to offer technical assistance to entrepreneurs. Individuals who are reorienting their careers may not have the knowledge necessary to start and maintain their businesses. Other small businesses may be interested in expanding due to the availability of skilled workers. I would expect sufficient resources will be available to help these entrepreneurs.

It also is important to note that federal purchase of goods and services can play a vital role in maintaining the health of small businesses in many areas of the country. The Administrator must be prepared to be a strong advocate of small business utilization within the executive branch. In addition, the SBA needs to have sufficient personnel to help small businesses through the complexity of the federal government contracting process. I will be very interested to hear from the Administrator about the resources that will be allocated to the Office of Government Contracting at the agency.

Before yielding back, I must note that simply increasing the funds available to an agency is not the only way to improve its performance. Sometimes, original thinking and reallocating existing resources will solve problems while staying within budgetary constraints. Administrator Preston should be thanked for his service, taking on the problems at the SBA, tackling them, improving the operations of the agency, and ultimately helping America's entrepreneurs.

With that, I yield back the balance of my time.

Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"Hearing on the Small Business Administration's
Budget for Fiscal Year 2009"
February 7, 2008

Thank you, Madam Chairwoman, for holding today's hearing to examine the Small Business Administration's (SBA) budget for fiscal year 2009. This country's small businesses and entrepreneurs drive the American economy, accounting for 99 percent of our nation's employers and 65 percent of new jobs. As economists forecast a slow down in our economy, it is vital that the SBA be ready to assist our small businesses at this critical time.

The Bush Administration's budget proposal does not give me confidence that the Administration is serious about helping entrepreneurs or their small businesses. The Administration's budget cuts funding for the SBA by 15 percent and I believe fails to adequately provide for critical programs that have been proven to effectively serve entrepreneurs at a time when banks are tightening their lending practices and available capital is becoming harder for small businesses to secure.

As our country faces a potential recession, it is imperative that we work together to keep our small businesses up and running so that they can continue to fuel our economy. I look forward to working with the Committee and Administrator Preston to resolve the differences we have and agree on a budget that will effectively serve small businesses and our economy.

Madam Chair, thank you again for holding this important hearing today. I yield back the balance of my time.

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TESTIMONY OF

SMALL BUSINESS ADMINISTRATION

ADMINISTRATOR STEVE PRESTON

United States House of Representatives

Committee on Small Business

Thursday, February 7, 2008

Chairwoman Velazquez, Ranking Member Chabot, distinguished members of the Committee, thank you for inviting me here today to discuss the President's Fiscal Year (FY) 2009 budget request for the U.S. Small Business Administration (SBA).

President Bush's unwavering support for America's small business is evident. His leadership has ensured that small businesses play a vital role in our economic growth -- adding more than 8.68 million new jobs since August 2003. By reducing the tax rates small business owners pay and increasing expensing tax provisions on investments, small businesses have more capital available to hire new workers and expand their businesses and inject new energy into our economy in the process.

Another important issue for small business is free trade. The pending agreement with Colombia is designed to level the playing field on tariffs for the benefit of U.S. exporters, as well as non-tariff barriers like intellectual property protections, excessive licensing and inspection requirements, burdensome paperwork and inconsistent customs procedures. It is important to note that in 2005 85% of U.S. companies exporting to Colombia are small and medium-sized enterprises (SME), with fewer than 500 employees, accounting for $1.7 billion in merchandise. Small and medium enterprises account for nearly 30 percent of the value of U.S. exports, whereas the SME percentage to Colombia is 35%. This Free Trade Agreement is an important step in breaking down tariffs and other barriers to trade that often shut out small firms from key emerging markets. Export growth accounted for over 40% of growth in the U.S. economy in 2007. As we look for ways to improve the uncertain economy, it is more important than ever for the United States to open new markets and knock down barriers for U.S. exports.

FY 2007 was a year of significant accomplishment for the Agency. By building on the accomplishments of FY 2007 and FY 08 this budget request reflects our leadership team's vision for the Agency's future. In FY 2009 SBA will continue to focus on our reform Agenda driven by clear outcomes, focusing on serving its customers effectively, enabling our employees, and operating an accountable organization. We will renew our focus on ensuring that its products and services are accessible to entrepreneurs in the most underserved markets – those in low to moderate income areas, HUBZones, and Empowerment Zone/Enterprise Communities.

- SBA's Fiscal Year 2009 budget request reflects the President's continued commitment to America's small businesses and the vital role they play in our economy. Enactment of this request will enable SBA to continue serving the small business community while supporting SBA's strong track record of fiscal responsibility. SBA's total budget request for FY 2009 is $657 million in new Budget Authority. This represents a 15 percent increase over the FY 2008 appropriation. From the standpoint of the Agency's operating budget, this request represents a 6 percent increase above FY 2008. To understand SBA's budget and compare it to previous years requires analysis of four distinct components: Operating expenses, disaster, resource partners, and earmarks.
    - Operating expenses: The request for FY09 operating expenses is 6 percent, or $22 million above FY08. Operating expenses represent funds to run all non-disaster aspects of the agency. This includes compensation and benefits, contracts, travel, supplies and other mandatory items like rent and workers comp. It also allows SBA to allocate substantial new dollars for technology and employee training.
    - Disaster: For FY09 the agency requests $160 million for disaster program administration and $14 million for disaster program subsidy, and anticipates an additional $150 million in subsidy carryover from 2008. In FY08, no money was requested for the disaster program – it was funded out of carryover balances from the previous year.
    - Resource partners: The request is flat to FY 07 levels and FY 08 request, although lower than the FY 08 appropriation.
    - Underserved Markets: This year we are requesting an additional $250,000 to support an innovative new program, the *SBA Emerging 200* initiative, which will provide capital access, business planning, government contracting and mentorship assistance in 10 inner city communities across the country.
    - Earmarks: No earmarks are proposed, versus $69 million in earmarks in the FY 2008 budget

Highlights of Major Accomplishments in FY 2007

Before I talk about our vision for FY 2009 I want to highlight some of the Agency's accomplishments in FY 2007 because they provide the backdrop to our plan for 2009, and the work we are continuing in 2008. FY 2007 was another year of significant accomplishment for the SBA not only in our core programs but in our overall management.

Capital Access: A total of 110,000 new 7(a) and 504 loans were approved – the most in the Agency's history. These loans represent $20.6 billion in new lending to America's small businesses. These small businesses were able to start, expand or grow, through access to capital that likely would not have been available without the SBA's involvement. The SBA contracted with the Urban Institute to assess its small business lending programs. They also found that SBA programs are more effective than conventional lenders in reaching minorities, women and start-ups. The findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit elsewhere." SBA is piloting its Rural Lender Advantage product to improve penetration in community banks and undertaking other initiatives to expand capital availability in underserved markets.

Disaster Assistance: The Office of Disaster Assistance completed a fundamental reengineering of its disaster loan processing operation that has dramatically shortened response times, improved quality of service and increased borrower support for all disaster victims. Processing backlogs were eliminated and feedback on the new approach has been universally positive. The Agency completed a Disaster Recovery Plan that describes the process that has been established to ensure effective Agency-wide operations in the event of another catastrophic disaster similar in magnitude to Hurricanes Katrina, Rita and Wilma.

Government Contracting/Business Development: During FY 2007 SBA worked with Federal agencies to improve the accuracy and reliability of contracting data by identifying database miscoding and anomalies. In FY 2006 (the most recent fiscal year for which data is available), Federal agencies reported that a total of approximately $78 billion Federal prime contract dollars went to small businesses. Contracts to service-disabled veterans increased by 50% over FY 2005, from $2 billion to $3 billion; contracts to women-owned small businesses increased by $1.5 billion; contracts to Small Disadvantaged Businesses companies rose by $2 billion; and contracts to HUBZone companies were up $1 billion. This shows record levels of prime contract dollars for all programs across the board. The Agency has also undertaken extensive measures to simplify 8(a) certifications and reviews, train our field employees and automate their paperwork to increase and improve their outreach to small businesses, and redirect responsibilities to PCRs to focus more heavily on helping direct contracts to small businesses.

Entrepreneurial Development: In FY 2007 1.1 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners including Small Business Development Centers, Women's Business Centers and SCORE. The Agency leverages its resource partner network for training and counseling, business plan development, marketing strategies, implementing new technologies, accessing capital, winning government contracts, and many other undertakings vital to the success of a small business. During FY 2007 more than 240,000 small businesses took advantage of the SBA's free, online business courses offered through the Small Business Training Network (www.sba.gov/training). This year the

Agency introduced an interactive Small Business Readiness Assessment tool to help individuals prepare for entrepreneurship.

Management: FY 2007 was a landmark year for the SBA in the area of financial management. As a major success in our Reform Agenda to ensure good stewardship of the government's resources, the Agency received an unqualified independent audit opinion with no material weaknesses – the first time since FY 2000. This result reflects the improvements the Agency has made in the quality of its financial processes, data integrity, and financial statements. By the end of FY 2007, the SBA made improvements in all nine major management challenges identified by the Inspector General.

In both the 2004 and 2006 Office of Personnel Management employee survey, SBA ranked 30th out of 30 in the Best Places to Work ranking provided by Partnership for Public Service. In 2002, SBA placed 24th. Thanks to our Reform Agenda, employees clearly see change. This year's survey results were remarkable:

- Positive scores improved in 38 out of 39 categories.
- Overall, job satisfaction increased 9 percent.
- Satisfaction with whether employees have the right skills, can use their skills, and improve their skills, increased 11 to 13 percent.
- Satisfaction with how well leadership communicates goals, priorities, and other information improved 11 to 16 percent.
- The respect employees have for senior leaders increased over 21 percent.

The strongest results appeared in areas where we have driven the greatest change. Employees are living the changes, believing that progress will continue– and are energized by it.

Highlights of the Budget Request

The resources requested will support a total of $28 billion in small business financing, which represents a 37% increase over business lending for FY 2007, through the 7(a), 504, SBIC, and Microloan programs. For its flagship 7(a) program the Agency requests $17.5 billion, a 30% increase over the FY 2007 lending levels. The Agency also requests $7.5 billion for the 504 program, a 19% increase over the estimate loan level in FY 2007. Finally, $3 billion is requested for the SBIC Debenture program.

The FY 2009 Budget request supports other critical activities including:

- A Disaster loan volume of $1.061 billion in direct lending, the normalized ten-year average;
- Targeting a total of $85 billion in prime Federal contracting dollars to be awarded to small businesses in FY 2009;
- Investment in the Agency's human capital through continuation of the successful training and development programs, including "SBA University," ;
- Mentoring programs, succession planning, and proactive recruitment of highly qualified staff;

- Continuation of the modernization of the Agency's loan management and accounting system;
- Management of *Business Gateway* to provide a single site resource for small businesses and entrepreneurs to access information they need from their government;
- Strengthening and upgrading the Agency's information technology infrastructure to provide an effective, robust, secure, and high availability information systems to support the Agency's operations; and
- The SBA's FY 2009 budget request will support 2,123 FTEs from the Salaries and Expenses budget, which is a steady staffing level planned to be reached by the end of FY 2008.

Vision for the Agency's Future

As part of developing a vision to address major challenges and opportunities, in mid-2006 SBA listened to our partners and other stakeholders, our employees, and most importantly, customers who used our services. We also dug deep into operational information to get a clearer picture of what was happening. And over time, we instituted a robust system of performance measures, analyzed data on our markets, and began disciplined reviews of how we were doing, where the issues – and opportunities – really were, and what worked and what did not.

The next step to effective change was to bring a vision to the Agency. The SBA's vision for FY 2009 is to build on the important progress currently under way in three primary areas:

- Underserved markets;
- Disaster assistance; and
- A Reform Agenda to improve the effectiveness of the Agency in meeting the needs of America's entrepreneurs.

Underserved Markets

One of SBA's major initiatives is to accelerate entrepreneurial success through focused delivery of SBA products and services to underserved communities. Supporting small business formation and growth in underserved markets will energize the local economy, create jobs and bring investment to drive a sustainable economic base. The overall initiative will consist of a combination of program level and local level activities designed to serve major underserved segments in both inner-city and rural environments, and extend Agency support through each stage of entrepreneurial growth.

More specifically, the SBA is launching or redesigning lending products to reach small businesses in our Underserved Markets, expanding partnerships with other service organizations with a complimentary mission, and rolling out targeted development programs to reach these entrepreneurs. One example is The *SBA Emerging 200* initiative provides advanced technical assistance focused on business growth to at least 200 emerging inner city companies across 10 cities. The SBA would provide training grant(s) (totaling $250K a year) to organizations that will deliver a combination of capital access, business

planning, government contracting and mentorship assistance to emerging companies from locally underserved areas.

Disaster Assistance

The SBA has completed a major process and policy redesign to ensure we respond more rapidly in assisting small businesses and homeowners seeking financial assistance after a disaster. The Agency expects to continue its progress with the planned introduction of an Electronic Loan Application (ELA) in the summer of 2008. In addition, we are establishing an Executive office of Disaster Strategic Planning and Operations to ensure the smooth continuation of Disaster operations for direct and guarantee lending; contracting assistance; and technical assistance.

The Accelerated Disaster Response initiative focused on improving the disaster victim's end-to-end experience from disaster loan application, through approval and closing, to final disbursement of funds. The driving principles are speed of response, customer support and quality. Multiple teams worked on identifying and implementing reforms and improvements to our processes.

The SBA instituted a communications plan in which the regional and district offices work in conjunction with the Office of Disaster Assistance to help disseminate disaster information throughout the declared disaster areas. To better accomplish this task, the Agency prepared a disaster tool kit to be used by regional and district offices. The regional and district offices are instrumental in providing valuable community outreach efforts throughout their local areas.

We plan to offer applicants the ease of applying electronically for disaster loans through the Electronic Loan Application (ELA) after its expected completion in the summer of 2008. The ELA, combined with upgrades on the Disaster Credit Management System (DCMS), position the SBA to meet the needs of Disaster Assistance applicants more quickly while using fewer resources.

The SBA also issued a Disaster Recovery Plan to meet future challenges depending on the magnitude of the disaster (levels I – IV). The plan encompasses a disaster recovery framework that includes the disaster assistance process, operational support, roles and responsibilities, business process reengineering, forecasting and modeling, surging to accommodate needs, simulations, a communications plan, and ongoing initiatives.

The Disaster Recovery Plan also supports the following outcomes:

- Support of long-term economic recovery by providing capital to help disaster victims rebuild and withstand economic injury;
- Faster decisions on disaster loan applications, closing and disbursement;
- A customer-focused, transparent, outcome-driven model of performance;
- A strong, standing, Core Capability supplemented by Surge Capacity; and

- Processes coordinated with federal guidance and protocols for disaster recovery (e.g., the National Response Plan (NRP) and the National Incident Management System (NIMS), where applicable).

The SBA's Reform Agenda

What we hear from our partners and customers is that secondary factors are often as important as the primary product or service that we offer – factors like ease of use, timeliness and customer support. There is a fundamental connection between the effectiveness of our programs and the way we deliver them.

Through the Agency's Reform Agenda, the SBA is driving operational improvements by becoming an organization that is:

- More customer focused;
- Enabling employees and improving the SBA's work environment;
- Ensuring stewardship of the government's resources through accountability, efficiency, and transparency; and
- Outcomes driven.

Becoming More Customer-Focused

We have a renewed focus across the SBA to drive improvements in customer service and simplify Agency programs to make them more accessible to the public, small businesses, and resource partners.

The SBA executes its mission through a nationwide customer-oriented network of:

- Small Business Development Centers in all 50 states and U.S. territories, with more than 950 locations across the country;
- SCORE chapters in over 800 locations;
- A national network of community-based Women's Business Centers to help women start and run successful businesses;
- SBA district offices in every state;
- Eight disaster loan and business servicing centers;
- SBA Trade Specialists located at U.S. Export Assistance Centers in major metropolitan areas throughout the United States; and
- Six Area government contracting offices with procurement center representatives (PCRs) covering over 300 buying activities.

In addition, thousands of our banks and private equity firms extend capital through our programs and dozens of agencies participate in our programs to expand Federal contracts to small businesses. The SBA is expanding its online presence to meet the evolving demands of its customer base. In 2007 the SBA introduced the Small Business Primer: Strategies for Success, a free, online training course to assist individuals who are considering entrepreneurship or are in its early stages. SCORE will increase capacity and efficiency by developing a national call center and workshop registration center. The call center will

remove the routine administrative burden of telephone answering and workshop registration from the volunteers. This call center model will enable SCORE volunteers to dedicate more of their time to provide additional client services at the chapter level. SBA has provided an additional online course to teach small businesses how to do business with the federal government.

To increase access to capital for small business, we have developed a series of initiatives aimed at making our programs easier for lenders to use, with a particular emphasis on assisting underserved markets and veteran communities. To enhance customer service, the SBA re-engineered processes in guaranty purchasing centers, focusing on strategies to improve the centers, enhance workflow, redesign processes, and standardize procedures. Performance measures and scorecard metrics are being established to promote accountability and transparency. A customer help function is being incorporated into the operation to provide better service and communication. In addition, a service outreach function has been created to work directly with larger lenders and with smaller lenders in partnership with the district offices to continually improve the quality of their interactions with the service centers and thus shorten cycle times.

We recognize the need for SBA to better assist small businesses to compete for government contracts. Additional procurement center representatives are being hired to ensure that small businesses are awarded their fair share of government procurement. We have also developed a "Quick Market Search" tool, an Internet engine linked to the Central Contractor Registration System (CCR).

The Agency created a Procurement Scorecard which measures how successful Federal departments and agencies are in meeting their small business contracting goals. This public scorecard will provide improved measurement and transparency to better allow small businesses to evaluate how the contracting offices are fulfilling the government's procurement obligations.

The SBA also plans to publish a scorecard of its resource partner programs. The SBA leverages its Entrepreneurial Development Management Information System (EDMIS), to capture and analyze program impacts. The higher-quality information allows the Office of Entrepreneurial Development to better manage its programs to increase effectiveness and efficiency, and by publishing these metrics we will also bring transparency to the programs.

The Business Gateway portal continues to improve and expand upon its proven formula of single source information for businesses hungry for quick and easy access to government-wide compliance, regulatory and policy information.

Enabling Employees & Improving SBA's Work Environment

Employees are essential to the success of any service organization. As I mentioned previously, we have made great strides in 2007 that we plan to build upon. SBA will continue to build upon the success of SBA University, and to respond to survey results that showed that employees have a continuing desire for skills development. The budget request includes $1.15 million for this centralized training.

The budget request also includes $200 thousand for the Office of Business Operations to satisfy the requirements set forth in OMB policy for developing and managing the acquisition workforce. Under this directive, affected workforce members must meet mandatory and periodic discretionary training requirements.

Included in the budget request is an additional $130 thousand for a Government Contracting/Business Development training initiative. The training initiative will involve district office field liaisons and Government Contracting Area Office staff and focus on program administration and delivery with special emphasis on strategies to increase prime and subcontract awards. These conferences are expected to expand and increase understanding of the program and, more importantly, to begin to build a public/private sector network that will promote and support the WOSB, SDVOSB and HUBZone program within local communities.

The budget request includes an increase for the Office of the General Counsel of $150 thousand for training. The General Counsel has conducted an internal assessment of its operations. This review took into account an in-house survey, discussions with field personnel including regional administrators and district directors, and consideration of the comments and recommendations of Administrator's Field Advisory Committee. This review suggested that a coordinated training program for the legal staff is a necessity. If the General Counsel is to meet or exceed its strategic goals and long term objectives, it is essential that an attorney training event take place in FY 2009.

Ensuring Stewardship of Taxpayer's funds though Accountability, Efficiency, and Transparency

During this past year the Agency created a Performance Management Office to focus on internal operations and establish an agency-wide Performance Management Framework to better align Agency mission, funding and priorities. That office has developed enhanced monthly performance management reports to closely track Agency operations and priorities on a monthly basis.

We recognize that government agencies need to become more efficient even while shouldering increased responsibility. Through careful analysis of its programs and operations, the Agency has demonstrated its ability to expand its services to America's small businesses while reducing total expenditures. At the same time we have been cognizant of our responsibility to manage our expanding loan portfolio.

Two primary principles govern the SBA's loan portfolio management practices -- operational excellence and risk management. The size of the Agency's $85 billion loan portfolio mandates that it be prudently managed to ensure that small businesses and disaster victims are served and that the taxpayer is protected from losses. Actions the SBA has already initiated in the area of operational excellence include the following:

- *Centralizing operations* —In 2007 the SBA completed the centralization of all remaining 7(a) loan approval, and 504 and Disaster loan liquidation activities, resulting in streamlined financial assistance functions. Other benefits of this centralization include

cost reductions resulting from specialization of activity by SBA staff, and greater consistency of policy interpretation and operational practices.

- *Operational assessments and Business Process Re-Engineering* — The SBA is completing and expanding operational reviews and business process re-engineering activities of its loan operations centers to identify opportunities for streamlining and process improvements.

- *Accelerating the liquidation process* — New 7(a) and 504 liquidation regulations require lenders to liquidate loans before submitting them to the SBA to honor the guarantee. The new regulations also position the Agency to resume an asset sale program for defaulted assets.

The Agency also places increased importance on risk management as part of the Agency's operational focus. Credit scores, combined with SBA lenders' current and historical performance, have allowed the Agency to assign risk ratings to lenders. Such ratings provide both an assessment and a monitoring tool for the most active SBA lenders, and are the primary basis by which lower volume lenders are evaluated.

In addition, the Office of Credit Risk Management improved SBA's lender portal to allow lenders to monitor their own portfolio performance and proactively address negative performance trends. This reduces the need for SBA action and potentially reduces loan program costs.

Thanks to its authority to collect fees for reviews and examinations from 7(a) lenders, the SBA increased its on-site lender reviews and examinations from 55 reviews in 2006 to 80 reviews in 2007 and plans to review over 200 in FY 2008. With the fee authority in place, the Agency expects to substantially increase the number of lenders reviewed and thereby reduce overall SBA portfolio risk. In FY 2009, the SBA will again increase the number of on-site lender reviews performed, with the objective of reviewing all large and mid-size lenders and Certified Development Companies on at least a bi-annual basis.

We are also expanding its monitoring and analysis of the disaster loan portfolio. This objective will be accomplished through the development of a system similar to the Agency's current 7(a) and 504 Loan/Lender Monitoring System. The Agency has begun the process to contract for this service, with full implementation planned before the end of FY 2009.

Modernization of our business loan system is a major Agency-wide undertaking that began in FY 2006. The Agency has finalized the business vision, developed the business case, developed the project management plan, and drafted the acquisition strategy. For FY 2009 the SBA is requesting $7.65 million in regular salaries and expenses funding for this initiative (to be complemented by a similar amount of disaster funding) for this project. Considering the nature and complexity of the project and underlying uncertainties of the acquisition process, it is requested that the funds appropriated for the project in FY 2009 be available for two-years.

We are also asking that a legislative change be made to strengthen and ensure stability in the SBA's secondary market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. This change will enable the

program to operate without cost to the taxpayer or structural changes that we encourage Congress to pass as quickly as possible.

Outcomes Driven

To fulfill its mission, it is critical that the SBA understand how to drive outcomes aligned with that mission. The Agency is proud of its work on improving program performance through budget and performance integration which has allowed it to maintain the President's Management Agenda's (PMA) highest green rating in both status and progress since FY 2004.

The SBA has put heavy emphasis on clearly defining the outcomes that it is targeting and ensuring that its programs, processes and policies are aligned in achieving them. Results of the Urban Institute studies will help the Agency in adjusting its programs to improve their reach and value to America's entrepreneurs. They will also be used to establish an initial baseline for evaluating the outcomes achieved through SBA lending.

Conclusion

As you can see, it has been an eventful and productive 18 months since I first came to SBA, and the next year is shaping up to continue to build upon the advancements the Agency has already made. This is a good budget for America's small businesses, America's taxpayers and America's economy. I look forward to working with you to enact this budget and to help entrepreneurs start, build and grow their small businesses as they infuse new life into America's economy. Again, thank you for inviting me here today, and I will be glad to answer any questions.

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