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THE FISCAL YEAR 2011 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

APRIL 21, 2010

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THE FISCAL YEAR 2011 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

WEDNESDAY, APRIL 21, 2010

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

The Committee met, pursuant to notice, at 2:47 p.m., in Room 428A, Russell Senate Office Building, Hon. Mary L. Landrieu (chair of the committee) presiding.

Present: Senators Landrieu, Snowe and Thune.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good afternoon, and let me call the Small Business Committee hearing to order. We are gathered here this afternoon to hear the budget presentation from the Small Business Administration, and we are honored to have Administrator Karen Mills with us to present her budget to the Committee.

Before we begin, I would like to call everyone's attention to, although I am sure you have already noticed, our new digs. We are excited and really honored to have had the Rules Committee to have the Small Business Committee on their agenda for renovation, and this is an ongoing effort on the part of the Rules Committee in the Russell Building. We were the beneficiary of that effort, and we hope that the room is lighter and brighter.

We have also installed some new technology, Ranking Member Snowe, that will allow us to conduct meetings remotely, with our constituents throughout the country. So the room is going to become a real resource for small businesses all over America and all of the stakeholders that appear here in the Capital, testifying and advocating on their behalf.

We are very pleased with this new space. The staff has a little extra space, as well as the members and our guests. So I hope the small businesses in our country will appreciate this space that is really for them.

I would like to begin with a short opening statement and then turn it over to our Ranking Member, and then we will hear directly from Administrator Mills.

More than half of America's workforce goes to work each day for a small business. These businesses pump almost a trillion dollars into our economy. They create, these employees, 13 times more patents than larger firms. Traditionally, two-thirds of our nation's new jobs are created right there on these small business job sites.

Many of these hardworking business owners rely on the SBA's counseling and finance programs to open their doors, to keep those doors open, to meet their payrolls and to compete in an increasingly competitive global marketplace.

With this in mind, it is counterintuitive that an agency that does this important work would be subject to budget cuts, but that is what happened in the previous Administration. I am pleased to say that in a bipartisan effort we have tried to change the direction and thank President Obama for his commitment, and we thank Administrator Mills for her leadership.

We are looking forward to making up for lost ground by investing in these very strong programs that help the small businesses across America in so many ways. The SBA and its resources to small business have suffered in the past, but we hope that this budget and future budgets will begin to make that turn around.

President Obama has made small business a top priority, not just with his words but his actions. For the second year in a row, the President has submitted a budget increase, funding to rebuild the SBA and meet the demands on its small business programs, from loans and counseling to contracting assistance. He understands, like we do, that by adequately funding these programs we can mitigate the ongoing impact of the credit crisis and help save and create hundreds of thousands of jobs.

The President has requested $994 million. This is a 27 percent increase over last year and a 64 percent increase over the Bush budget of 2009.

I have also sent a letter asking the Budget Committee to consider, along with the Ranking Member and others, an increase even over that for some specific targeted programs that we want to support and believe merit that extra investment.

First, the $164 million to support $17 billion 7(a) loans which is a big increase over the $80 million requested and appropriated last year. I fully support this request, because it is necessary to prevent an increase in base fees. Keeping the base fees low is important to maximize Recovery Act provisions that waive fees for borrowers and raise the loan guarantee on the SBA's largest program.

Second, the increase in SBA lenders, which has been a priority for me since taking over as Chair of this Committee. Consequently, I am fully behind the President's goal to increase the number of active SBA lending partners for the 7(a) loan program to 3,000 by September 30th, 2011.

And third, the $203 million to administer SBA's Disaster Loan Program. There is plenty of carryover funding for the loans, and this funding will ensure that we have sufficient staff to process loans more quickly and get money in the hands of families and businesses that need it.

We just had a recent disaster in Rhode Island. My staff is actually on the ground, from Louisiana in Rhode Island, assisting the Senators there as they deal with the thousands of individuals, homeowners and business owners who have been affected by the great flooding that has happened just recently in Rhode Island.

And fourth, we have made improvements to the Disaster Loan Program. I will not go into those details, but I am looking forward to hearing about what investments that we have made, and the

outcome of the investments that we have made in improving that program.

The bottom line is this is a good budget. It is a strong budget. But after meeting with small business owners and SBA lenders and counselors, I am recommending an additional $100 million for SBA in its Views and Estimates Letter that I submitted to the Budget Committee. Hopefully, all or much of that will be agreed to.

I will now submit the rest of my statement to the record because we did get started a little late, and I want to make sure that we give Administrator Mills her full time. I will turn it over to the Ranking Member for her opening statement, then we will hear from the Administrator. Thank you.

[The prepared statement of Chair Landrieu follows:]

"The FY2011 Budget Request for the Small Business Administration"
April 21, 2010

Opening Statement for the Record of Senator Mary L. Landrieu (D-LA)

Good afternoon. I would like to call the Small Business Committee hearing to order and thank you for joining me today to discuss the Small Business Administration's FY2011 budget request. Thank you especially to SBA Administrator Karen Mills for coming to testify.

More than half America's workforce goes to work for a small business each day. They pump almost a trillion dollars into the economy, create 13 times more patents per employee than large firms, and traditionally have created two-thirds of our nation's new jobs. Many of these hardworking small business owners rely on the SBA's counseling and finance programs to keep their doors open, meet their payrolls and compete in an increasingly global marketplace.

With this in mind, it is counterintuitive that the single agency responsible for aiding these small businesses would receive so little support. And yet, year after year under President Bush, the SBA saw cuts to its core programs -- funding for 7(a) loans eliminated and fees increased, microloans cut, support for the SBIR program cut, funding for the New Markets Venture Capital program eliminated, Women's Business Centers, Small Business Development Centers and contracting counseling cut, and staff in the district office s reduced. Over eight years, the Agency's funding was shrunk by more than a quarter. The SBA and its resources to small businesses suffered the most cuts of all 24 agencies.

Table S-3. Discretionary Funding by Major Agency

Agency	2001 Actual	2008 Enacted	2010 Request[1]	Change 2000–2009 Dollars	Change 2000–2009 Percent	Change 2001–2009 Nominal	Change 2001–2009 Constant
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

President Obama has made small business a top priority, not just with his words, but with his actions. For the second year, the President has submitted a budget that increases needed funding to rebuild the SBA and meet the demands on its small business programs, from loans and counseling to contracting assistance. He understands, like we do, that by adequately funding the SBA's programs we can mitigate the ongoing impact of the credit crisis and help save and create hundreds of thousands of jobs. President Obama has requested $994 million for the SBA. This is a 27 percent increase over his request last year, and a 64 percent increase over President Bush's FY2009 request.

Let me quickly talk about a few of the many good things in this budget. First, the President's request of $164.5 million to support $17.5 billion in 7(a) loans is a big increase over the $80 million requested and appropriated last year. I fully support this request because it is necessary to prevent an increase in the base fees. Keeping the base fees low is important to maximize the Recovery Act provisions that waive fees for the borrowers and raise the loan guaranty on SBA's largest loan program. Together, these efforts have proven very effective in increasing capital to small businesses.

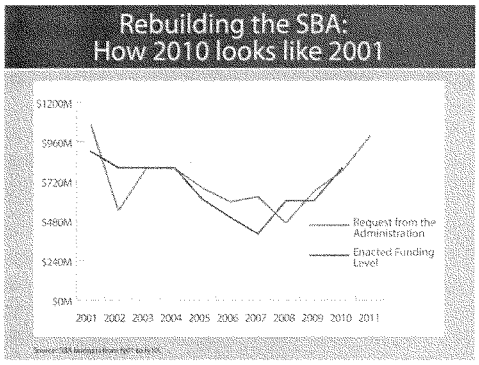
Second, increasing the number of SBA lenders\ has been a priority for me since I took over as Chair of this Committee. Consequently, I am fully behind the President's goal to increase the number of active SBA lending partners for the 7(a) loan program to 3,000 by September 30, 2011.

Third, I support the President's request for $203 million to administer the SBA's disaster loan program. There is plenty of carry-over funding for the loans, but this funding will ensure that we have sufficient staff to process loans quickly and get money into the hands of the families and businesses that need it. As Louisianans know all too well, when a disaster hits, the last thing anyone needs is more frustration and delay preventing businesses from reopening and families from returning to their homes.

Fourth, there must be improvements to the Disaster Loan Program. In addition to making sure the disaster loan program has sufficient funding, I fully support a goal for FY2011 to process more disaster loan applications faster. More specifically, to process 85 percent of the disaster loans within 14 to 18 days. Largely due to the work of members of this Committee and the leadership of former SBA Administrator Steve Preston, SBA's disaster loan program has made great strides. But we can always do better, and I'm glad Administrator Mills is looking for concrete, and measurable ways, to build on improvements to the delivery of disaster loans.

This is a good, strong budget, but after meeting with small business owners and SBA's lending and counseling partners and small business advocates, I recommended an additional $100 million for the SBA in the views and estimates letter I submitted to the Budget Committee, elevating the SBA's budget to $1.094 billion. This will maximize the number of jobs we can save and create.

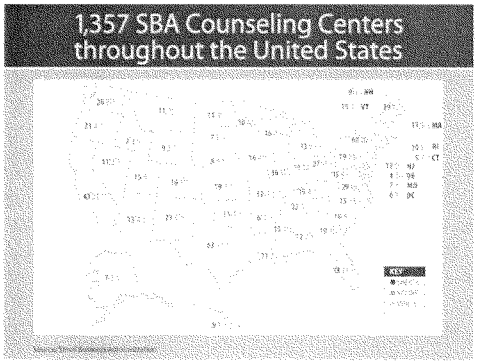
I know there is talk of freezing discretionary spending next year, and I share the commitment to fiscal restraint, but my recommendation is more than reasonable – it is comparable to what was requested for the SBA in 2001 – a decade ago.



If we provided that amount in funding when the economy was good, we should be doing at least that when the economy is bad and we have an unemployment crisis. This additional funding would support programs that have remained in high demand but have been underfunded for years. It would increase contracting personnel so desperately needed to reduce contract bundling, expand and diversify the country's suppliers, and save money. Additionally, it would rebuild the SBA offices in our states, such as in Louisiana where SBA staff has been cut from 21 to 10 over the last decade.

Regarding the Microloan program, Senator Levin and I are supporting a program level of $26.5 million for microloans and $22 million for technical assistance grants. These tiny loans, along with the training they provide, make it possible for people to start a full-time business, regain financial stability and dignity through work, and even patch income gaps so families can buy a car, a home or pursue a better education for their children.

Equally important as finance programs to our economic growth are the SBA's counseling centers and outreach programs.



As we can see from this map, the SBA has an impressive infrastructure – over 1,350 counseling and outreach centers – that must be adequately funded. These centers have a proven track record – creating or saving nearly 150,000 jobs in 2008. Recognizing that these centers are reporting unprecedented demand, I have asked for an additional $169 million to support Small Business Development Centers, SCORE, Women's Business Development Centers, and Native American and Veterans Outreach programs.

While there are many areas where we agree, and even more where we are really close in agreement, I must speak for just a moment on one part of the Administration's proposal. Expected as part of its legislative package, the SBA is proposing to change the Small Business Act so the Agency has the authority to adjust fees for 7(a) loans. Raising the cost of this program on borrowers or lenders is the jurisdiction of this authorizing Committee. Stripping that authority would eliminate an important check and balance on the government's largest source of long-term capital to small businesses in this country. It is controversial, and I am interested to hear why the Administration believes it should have this authority.

I look forward to hearing from Administrator Mills the SBA's priorities for the next fiscal year. With that, I now turn to Ranking Member Snowe and any other members present for opening statements.

OPENING STATEMENT OF HON. OLYMPIA J. SNOWE, RANKING MEMBER, AND A U.S. SENATOR FROM MAINE

Senator SNOWE. Thank you, Chair Landrieu. I appreciate very much your continuing and ongoing advocacy on behalf of small businesses, and in particular at this pivotal moment in our nation's history. So I truly appreciate it, and also for leading the renovations of this room.

And I applaud all the workers and the Architect of the Capitol for doing an amazing restoration, in keeping with the design and the historic nature of this building. So I want to commend everybody for the outstanding work that obviously was involved in making this happen.

I also want to welcome Administrator Karen Mills and applaud her for her outstanding leadership at the Small Business Administration, on behalf of the small businesses, and for being such a vital voice during these very crucial times.

I am anxious to hear about the state of the agency, the President's 2011 budget request, as well as the Small Business Administration and its efforts in assisting small businesses to create jobs and emerge stronger than ever.

The economy is again gaining some traction, but as Mark Zandi, the Chief Economist at Moody's Analytics, told the members of the Senate Finance Committee last week, we are in the midst of a jobless recovery because small businesses, who have created two-thirds of all the net new jobs in the past fifteen years, are not hiring. Specifically, Dr. Zandi stated that the key reason why small businesses are not hiring is that businesses are starved for credit. He went on to highlight that the SBA is the best, most direct, and most effective way of getting credit to these businesses quickly.

I met with you, Administrator Mills, on February 11th, to be exact. You laid out the Administration's support for a number of key initiatives and critical enhancements to the SBA's lending programs, which I and the Chair have strongly supported, and in fact reported out of this Committee, with near unanimous support, for many of these initiatives.

The central piece of our bill is an increase in SBA loan limits, which Dr. Zandi said during his testimony last week, is a crucial part of the solution to this credit crisis. Now it is almost May, and the Senate has yet to pass these vital provisions to address the small business lending crisis. Well, inaction is not an option. As Dr. Zandi indicated and made abundantly clear, and as the NFIB's latest survey, which identifies that small business confidence is near historic lows, supports, we must pass this legislation, so that small businesses can hire and help reverse this disturbing jobless trend.

In fact, I wish I had put it on a chart, but the NFIB had a Small Business Optimism Index in that later survey, and it really is, I think, indicative of the problem that has occurred among small businesses across this country. So, if we are depending on small businesses to lead us out of this recession and into a strong recovery, we have a long ways to go in engendering the kind of resources that are going to encourage the lending and taking the steps necessary to create additional jobs and make investments in the future.

But that, I think, is an indication of the problem that we are facing nationwide, and that is why we have a jobless recovery, and a jobless recovery is obviously not a true recovery.

In addition to lending, the Chair and I have supported a number of bipartisan initiatives to bolster small businesses and create jobs, including export assistance, providing certainty in business expensing for five years rather than just the one year that was recently extended for, allowing businesses to write off up to $250,000, and a complete exclusion of capital gains attributable to small business stocks held for five years.

And turning to the President's budget request, we certainly should begin by highlighting that the agency plays an invaluable role in helping small businesses, obviously, from financing to business counseling, and from exporting advice to assistance with Federal contracting. When examining the budget, we must determine how best to bolster the agency in a time when we are facing tremendous budget challenges and alarmingly high deficits.

I have applauded the President's call for a freeze in non-defense discretionary spending. I appreciate that within those parameters the President has recognized the critical role of small businesses in our recovery and proposed a sizable increase for the SBA, amounting to a 15 percent increase over the amount provided in the 2010 budget.

At the same time I am troubled that this 15 percent is misplaced in some ways given the Administration's plans to provide flat funding for the SBA's core noncredit programs, such as the Women's Business Centers, the Veterans Business Centers, the Small Business Development Centers, SCORE and the HUBZone Program. In the very same budget that denies these critical programs any additional funding, the President's request includes a 16 percent increase for office operating costs which include administrative and overhead expenses for all the SBA's program offices. When excluding disaster funding, the 7(a) credit subsidy, and earmarks, this $17 million increase in operating costs represents 89 percent of the overall budget increase.

Further, I have concerns that the executive direction budget has increased 29 percent over fiscal year 2010, and in fact, is 229 percent higher than the fiscal year 2008 funding level.

At a time when small businesses continue to reduce costs and tighten their belts just to survive, it is more crucial than ever that the SBA contain overhead and operating costs, and invest any additional taxpayers' dollars in the programs that have proven time and again to create jobs and help entrepreneurs to succeed.

So I hope that we can have a discussion on some of these budgetary priorities and what we can do both within the agency, because I think you are doing an outstanding job, but hopefully we are using every dollar to maximize to the extent possible, to bolster our small businesses and the resources necessary for them to survive and hopefully to thrive. Also, we must use the SBA to create those jobs that are so desperately needed in our nation's economy, in addition to what we have already done in this Committee. I think we are preaching to the choir amongst us, in terms of what needs to be done to help small businesses as we revive this economy.

But, clearly, the message has to be heard in a way that we see the action taken on the floor in the whole Congress, so that it can be signed into law immediately.

Thank you, Madam Chair.

Chair LANDRIEU. Thank you.

As I turn the microphone over to you, Administrator Mills, I would like to submit for the record the opening statement of Senator Carl Levin, without objection.

[The prepared statement of Senator Levin follows:]

Statement of Senator Carl Levin
Committee on Small Business and Entrepreneurship Hearing on
The FY2011 Budget Request for the Small Business Administration
April 21, 2010

I am pleased the President's budget continues to restore funding to the SBA's programs after 8 years of Bush Administration cuts. Administrator Mills, I appreciate the contributions you have made to reenergize the SBA and revive its programs. It is critical that we bolster SBA's resources and programs as our economy struggles to recover from the worst recession in a generation. The President's request for SBA is $170 million more than last year's enacted level. This 17 percent increase in funding underscores the important role SBA must play in helping put Americans back to work.

The budget request supports last year's lending levels for the microloan program. However it requests less funding for the technical assistance component of the microloan program. With demand for SBA microloans increasing as other sources of credit have dried up, we need to make sure there is adequate technical assistance especially now that microlenders are spending more time working with existing business borrowers due to the difficult economy. I will work with my colleagues and appropriators to secure additional funding for microloan technical assistance.

The main issue on everyone's mind is job creation and the key to this is making sure small businesses have access to capital. SBA's role in encouraging banks to lend to small businesses has become even more important since so many banks have pulled back their lending. Congress was able to take important steps to make SBA loans more appealing. In the American Recovery and Reinvestment Act (ARRA) the government guarantee was raised to 90% and fees were

waived for SBA's two main lending programs until ARRA funding ran out. As a result the number of 7(a) and 504 loans increased while other lending was decreasing. But we need to do more.

Many larger banks and non-bank business lenders have experienced their own economic downturns. While these institutions have, in recent years, accounted for increasing shares of small business lending, given their recent capital constraints, that trend is rapidly reversing. That reversal significantly restricts the availability of credit to many small businesses.

Unfortunately, the community banks that traditionally have made more than half of all small business loans are also struggling in the economic downturn, making them unable to pick up much of the excess demand. For many of these community banks, their capital positions are also restricted—impairing their abilities to make loans to even credit-worthy borrowers.

Collectively, the diminished capacity to make loans has left many viable businesses struggling to obtain the credit they need to keep the lights on, buy the inventory they need, pay their employees, and keep our economy on the road to recovery.

Further, depreciating collateral values have left a large number of small businesses unable to obtain critical capital—despite having customers and revenues. A business whose ability to repay a loan has not changed, but whose equipment has been appraised at a lower value because of the weakened economy, may lose the line of credit necessary to keep that business operating. In many cases, the banks that have long serviced these companies are simply unable to lend, not

because they fear an increased risk of default but because the value of the collateral upon which the amount of the loan is based has gone down.

That is why I think we need to focus both on the availability of credit, which means ensuring that banks and credit unions are able to make these much-needed loans, and on the businesses' abilities to take advantage of that available credit, which means bolstering guarantee programs and providing other borrow support. Put simply, we need to focus on both the lenders and the borrowers.

Our efforts must focus on ensuring that there is capacity to make good small business loans. This should include supporting the community banks that make the majority of small business loans and hinging that support on increased small business lending. The Administration has proposed something along these lines, and I have cosponsored a bill here in the Senate, the Bank on Our Communities Act, which would provide some of this support. We should also consider increasing the capacity of credit unions to make small business loans. I hope that these measures are included in the Senate's next jobs package.

But we must also focus on the borrowers. We must help good, viable businesses take advantage of the lending capacity available to them. These efforts should include expanding the SBA's capabilities, including providing increased loan limits and expanded guarantees and providing support to borrowers who have experienced collateral shortfalls. Again, I have cosponsored legislation that would increase the SBA's capabilities, and I hope that we will be able to include it in the next jobs package.

With regards to additional borrower support programs, I am working to craft a proposal with the Administration, several members of the Senate, including Senators Brown, Stabenow, and Warner, as well as several members of the House, including my brother, Congressman Sandy Levin and Representatives Dingell and Peters.

Currently, our proposal would be to provide Federal assistance to states' borrower support programs. The states or local governments could apply to the Treasury for these funds, which could be awarded to existing Capital Access Programs, or could be run through other alternative borrowing programs at the state or local level that have proven to work. These programs are already working in many states, and have shown to provide a great "bang for the buck," with every public dollar leading to ten, twenty, or even more dollars in small business loans. These programs could be refined and expanded to help alleviate some of the growing need.

In Michigan, our auto supplier diversification fund, which helps support borrowers who might not otherwise be able to get a loan due to collateral issues, is getting businesses the funds they need and is already over-subscribed. And our existing Capital Access Program is also working. I hope that we will be able to learn from these programs, as well as those from other states, and put forth a cost-effective national program to support good small business.

Providing support to both lenders and small business borrowers will be critical to our efforts to reign in the unacceptably high unemployment rate.

I look forward to working with SBA to enact additional proposals that will help small businesses access credit.

Chair LANDRIEU. All right, Secretary.

STATEMENT OF THE HONORABLE KAREN GORDON MILLS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATOR

Ms. MILLS. Chair Landrieu and Ranking Member Snowe, it is really a pleasure to be here. Thank you for the opportunity to be here in this beautiful room and to present the President's fiscal year 2011 budget for the Small Business Administration.

This budget of $994 million reflects a commitment to growing businesses and creating jobs and to fiscal responsibility. Access to capital remains a top priority. Already, our raised guarantee and reduced fees, combined with an improved lending environment, have brought back nearly 1,200 lenders to the SBA. These lenders have helped put $25 billion in the hands of small business owners.

And I want to thank you for extending the Recovery Act loan enhancements through the end of May. This will support about $2.8 billion in new small business lending under our 7(a) and 504 programs.

And, as you know, the Administration has proposed to extend the Recovery Act provisions through the end of the fiscal year. I hope that we can achieve that.

This 2011 budget supports more than $28 billion in lending through the 7(a), 504, Small Business Investment Company and Microloan programs. It also incorporates increasing the loan sizes in 7(a) and 504 to $5 million. We have also set a goal of increasing by 15 percent our active lending partners by the end of fiscal 2011, to be sure that more people can get access to these loans.

The second priority after access to capital is small business contracting. We are committed to working across the agencies to meet the government's goal of awarding at least 23 percent of prime contracts to small businesses. Our work will also help Federal agencies meet the procurement goals set for veterans, women, disadvantaged businesses and business in HUBZones. We have requested $2 million to help meet these goals while removing ineligible firms and rooting out waste, fraud and abuse. We also look forward to implementing the women's contracting rule.

Our third priority is counseling. As the Ranking Member mentioned, we have a terrific bone structure, a great network of 14,000 SBA-affiliated counselors, and they are critical to meeting small business needs. This budget includes $134 million to support our 900 Small Business Development Centers, 110 Women's Business Centers and 350 chapters of SCORE, our mentoring program.

We also requested $3 million for Emerging Leaders, an intensive classroom-based entrepreneurship education program. This builds on a pilot that has helped entrepreneurs in distressed areas create jobs, increase revenues, find financing and get contracts. In 2010, the pilot is reaching out to Native American-owned firms in 12 additional cities.

This budget supports a Disaster Loan Program that is in a constant state of readiness. It will help us keep short turnaround times on loans while supporting a loan volume of $1.1 billion for homeowners and businesses.

The 2011 budget also advances another critical priority—to support high-growth small businesses that drive American innovation

and global competitiveness. It requests $2 million to better manage and oversee the Small Business Innovation Research, SBIR, Program, as well as implement performance metrics for the program. It is a great program. From 2002 to 2006, 25 percent of R&D Magazine's Top 100 Annual Innovation came from firms that received an SBIR award.

The budget requests $11 million for Regional Innovation Clusters. Clusters help small businesses in a certain area in industry join forces and gain more access to university research, workforce training, international markets and more. The SBA has already served as a lead agency for a robotics cluster in Michigan's hard-hit auto suppliers. We are also a collaborating agency in a nationwide competition for an energy efficient cluster. Our extensive bone structure of counselors and partners will play a critical role on the ground in supporting Federal clustering efforts.

In addition to the external goals, we will continue our internal focus by building the SBA into a more high performing organization, by investing in people, technology and oversight.

For people, we are increasing our efforts in management training, mentoring and succession planning. The budget reflects a slight increase to 2,209 regular full-time employees.

In technology, we are modernizing our loan management system and upgrading our web presence to better serve our customers.

And in oversight, we requested $2 million for more lender oversight and onsite reviews and $1 million for stronger program assessments.

In closing, we know that small businesses have created approximately 65 percent of net new private sector jobs over the last 15 years. This budget will help us give even more small firms the tools that they need to create jobs, to lead us into recovery and to lay a strong foundation for the economy of America.

Thank you. I am pleased to take your questions.

[The prepared statement of Ms. Mills follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Testimony of Karen G. Mills
Administrator

Before the
Committee on Small Business & Entrepreneurship
United States Senate

Fiscal Year 2011 Budget Hearing

April 21, 2010

Chair Landrieu, Ranking Member Snowe and members of the Committee, thank you for the opportunity to discuss the President's FY11 Budget for the SBA. This budget of $994 million reflects a commitment to growing businesses and creating jobs, and to fiscal responsibility.

Access to capital remains a top priority. Already, our raised guaranty and reduced fees combined with an improving lending environment have brought back nearly 1,200 lending partners. These lenders have helped put $25 billion in the hands of small business owners. I want to thank you for extending our Recovery Act loan enhancements through the end of May. This will support about $2.8 billion in small business lending under our 7(a) and 504 programs. As you know, the Administration is proposing to extend the Recovery Act provisions through the end of the Fiscal Year; I hope we can achieve that.

This 2011 budget supports more than $28 billion in lending through the 7(a), 504, Small Business Investment Company, and

Microloan programs. It also incorporates increasing the loan sizes in 7(a) and 504 to $5 million. Also, we've set a goal of increasing by 15% our active lending partners by the end of FY11 to make sure even more people can get these loans.

A second priority is small business contracting. We're committed to working across the agencies to meet the government's goal of awarding 23 percent of prime contracts to small businesses. Our work will also help Federal agencies meet the procurement goals set for veterans, women, disadvantaged businesses, and businesses located in HUBzones. We've requested $2 million to help meet these goals, while removing ineligible firms and rooting out waste, fraud, and abuse. We also look forward to implementing the women's contracting rule.

A third priority is counseling. Our 14,000 SBA-affiliated counselors are critical to meeting small-business needs. This budget includes $134 million to support our 900 Small Business Development Centers, 100 Women's Business Centers and 350 chapters of SCORE, our mentoring program.

We also request $3 million for Emerging Leaders, an intensive classroom-based entrepreneurship education program. This builds on a pilot that has helped entrepreneurs in distressed areas create jobs, increase revenues, find financing, and get contracts. In 2010, the pilot is reaching out to Native-American-owned firms in 12 additional cities.

This budget supports a disaster loan program that is in a constant state of readiness. The budget will help us keep low turnaround times on loans while supporting a loan volume of $1.1 billion for homeowners and businesses.

This 2011 budget also advances another critical priority – to support high-growth small businesses that drive American innovation and global competitiveness.

- It requests $2 million to develop better management and oversight for the **Small Business Innovation Research** program as well as implementing performance metrics for the program. From 2002 to 2006, about 25% of *R&D Magazine*'s top 100 annual innovations came from firms that received an SBIR award.
- This budget also requests $11 million for **regional innovation clusters**. Clusters help small businesses in a certain area and industry to join forces and gain more access to university research, workforce training, international markets and more.
- The SBA has already served as lead agency for a robotics cluster for Michigan's hard-hit auto suppliers. We're also a collaborating agency in a nationwide competition for an energy-efficiency cluster. Our extensive bone structure of counselors and partners will play a critical role "on the ground" in supporting federal clustering efforts.

In addition to external goals, we'll continue our **internal** focus on building SBA into a more high-performing organization by investing in people, technology, and oversight.

For our people, we're increasing our efforts in management training, mentoring, and succession planning. This budget also reflects a slight increase to 2,209 regular full-time employees.

In technology, we're modernizing our loan management system and upgrading our web presence to better serve our customers.

And in oversight, we request $2 million for more lender oversight and on-site reviews, and $1 million for stronger program assessments.

In closing, we know that small businesses have created approximately 65% of net new private sector jobs over the past 15 years. This budget will help us give even more small firms the tools to create jobs, to lead us to recovery, and to lay a strong economic foundation for America.

Thank you and I'm pleased to take your questions.

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Chair LANDRIEU. Thank you very much. Let me begin by just asking you, Administrator Mills, of all of the programs that you are overseeing, in terms of lending programs through the SBA, what is the most effective lending program that you see in terms of absolutely empowering small businesses to get the capital they need to either save jobs, and more importantly really to add jobs? What program is it?

What areas of the country have you been noticing have potentially been leading the way in job creation, or what areas or clusters, that we might consider either giving you more support for or extending time of that particular program, or supporting it in some other way, either through the budget or through other legislation?

Ms. MILLS. Since the start of the Recovery Act, we have been able to put $25 billion into the hands of small businesses at the cost of about $550 million, which is a pretty good bang for the buck for the taxpayer. This comprises 2 core programs, 7(a) and 504, and they serve quite different activities. As you know, 7(a) is a more broad scale business; 504 is more for a real estate and equipment loans. So they tend to work together and in concert.

We also have been very effective with our Microloan Program, and that serves an entirely different community, tending to be more concentrated in underserved markets and groups. This has been especially important because microloans have actually gone up over 2007, 2008, 2009. The loan volumes are increasing.

And we are finding that it is very important to have all of these tools in the tool kit because some geographies and some communities are recovering at different rates than others, and some of them are going to still need some additional help.

Chair LANDRIEU. As you know, we have had several hearings on these programs, and what I am hearing consistently is while the programs are effective the business owners need those limits to be raised, and we have a bill pending to do over the long term. In fact, we had a hearing just last week in here, that the cap on the express loans, many of the business owners, minority business owners that testified thought a $35,000 limit is much too low, given the pressure out there today.

Do you have a comment about what you are hearing? Is that your experience because we are hearing that consistently from a variety of different sources?

Ms. MILLS. We are in complete agreement. We are hearing the same thing. The increase in the loan limits is absolutely critical. It will help us fill some of the gaps that still exist in access to capital.

And these increases in loan limits come in a number of the programs. We are asking for an increase to $5 million in the 504 and 7(a) program. We know that there is a number of gaps in the market where other lenders and credit providers who used to provide those kinds of loans to franchisees, for instance, and to factory owners who own their warehouse, they are no longer in the market. In addition, the increase in microloans will be very important.

The most powerful program continuation that we are requesting, though, is the 90 percent guarantee and the fee reduction for the base 7(a) and 504 programs, which has really moved the market

and brought 1,200 lending partners back to SBA lending, allowing us to go back. We are now at above our 2007, 2008 lending volume.

Chair LANDRIEU. The President has put improving the SBIR program as one of his high priority performance goals. Why did the Administration not request funding for the program that increases awareness and participation in the SBIR program, and could you comment about that and give your views if you do not mind?

Ms. MILLS. Well, the SBIR program is a very powerful program. It is about $2.5 billion, and it has reach across all the agencies. Our commitment is to manage that program more effectively and to work with all the agencies, on all the outreach that you just described, in order to make sure that that program is operating and known to all the small businesses.

In addition, this budget does request $2 million for oversight of that program, particularly in the metrics area where we are going to improve our data collection system, and I think we will be able to communicate well and evaluate well what is working in that SBIR program, with that new information.

Chair LANDRIEU. All right. There is some information that the Administration may propose legislatively to allow the 7(a) loan program to be self-financing, in other words, to allow the agency at some point to implement fees to have the program self-supporting. You know there was a tremendous amount of pushback from Congress when President Bush and the Administration raised these fees administratively, and there could be some pushback on this proposal. Are you going to make this proposal, and if so, why do you think it is so necessary?

Ms. MILLS. We are at this time looking for subsidy in this budget for 2011 because we are capped on our 7(a) fees. So we do not actually have the ability to raise those 7(a) fees.

We need to look at the 2012 budget, and we have not made any specific requests, but we recognize the budget constraints. And the question is can we have flexibility because what we do not want to do is reduce our program level. We think that the program level needs to be kept robust because these programs are very much in demand.

Chair LANDRIEU. All right. And one last question, then I will turn it over to Senator Snowe, and then we potentially will have time for a second round.

This is really about the veterans. I hear a great deal of this as veterans are returning from Iraq and Afghanistan, many on their second and third deployments. They are coming back to a very uncertain time here stateside in terms of jobs and opportunity. Could you talk about what your program does, or what our program does, to enhance opportunities for veterans to either start their businesses or opportunities for training for them as they return from the battlefields of Afghanistan or Iraq or other places in the world where they are stationed?

Ms. MILLS. Veterans are a prime focus area for the SBA, and we serve veterans in all of what we call our 3Cs. Our 3Cs are capital, contracting and counseling. So we have special programs for veterans in our capital, Patriot Express. We have special programs for veterans in our contracting, for service-disabled veterans and for veterans in some of the agencies. We have special set-asides. And

in counseling, we have not only our special Veterans Center but this year we have an extraordinary program with Syracuse University where we are building out specific entrepreneurship training for veterans and service-disabled veterans, women veterans and families of veterans, which are a focus area for us.

We are also, not visible in the budget but actually quite powerfully, in very close collaboration with the Veterans Administration on a whole number of coordinated projects including they are training all of our staff in everything that is available to veterans at the VA. So when somebody walks into one of our operations, we can offer them not only what we know but what the VA has, Veterans Administration, and the VA knows about all our programs, so that veterans can navigate their way to all the benefits that they can use to prosper.

Ms. MILLS. Senator Snowe.

Senator SNOWE. Thank you.

Administrator Mills, on the budget priorities, as I mentioned in my opening statement, I notice that there is a major increase in the executive direction budget which is a substantial increase compared to previous budgets. It would generally be about 2 percent. This year's request represents a 29 percent increase from the previous year, from $16 million to $33 million.

I understand some of the allocations, like for the Office of Advocacy, Ombudsman and Veterans Business Development, are probably in line with what has been provided typically in previous budgets, although I have never understood why these do not have line items in the budget itself so that it is there. It is obvious on the Office of Advocacy that we would be providing funding, or Ombudsman, Veterans Business Development, but there is $9 million designated as Other that has not been allocated in any regard. That seems to be a significant amount of money that has not been targeted or earmarked and obviously a considerable discretion at a time where other accounts, as I mentioned with the Women's Business Centers, the veterans program, SCORE, Small Business Development Centers, HUBZones, technical assistance programs and so on, all received no funding increases for this fiscal year.

Ms. MILLS. The entire amount of the increase in executive direction is actually in what we call our LMAS, our loan management system, and we would be happy to provide you with the detail.

We strongly agree that this is not the time to increase management overhead for managing the same operation, and we have taken the same direction of tightening our belt. There are very few people increases here. So we have our standard amounts of increases for the existing personnel.

But the loan management system, which has been in an implementation phase for some years, goes into a much more accelerated execution phase in this budget year, and we are overseeing it. We just did a recent review on it. It is a mission-critical system. It replaces our mainframe that today runs on COBALT and replaces it with a brand new enterprise-wide system, and that account for those increases. We will get you the breakout.

Senator SNOWE. So that would account for most of the $9 million that we were discussing?

Ms. MILLS. Yes.

Senator SNOWE. Because that is really more than double than the previous year, and given the fact that we need so much invested in these other programs. At a time when we are trying to provide counseling and support to small business owners, to survive this climate and hopefully be able to create jobs, we want to make sure that we are providing every dollar to these valuable programs.

So I would appreciate that breakdown because what we had was in terms of compensation, benefits, overhead, rent, operating costs, chief information officer and so on. I think there are some significant increases. So maybe this is inaccurate, and I would like to see if we could have the breakdown.

Ms. MILLS. Right. We do not significantly increase our management overhead. And that, we will give to you the breakout of the computer information system investment, which lives in our data sheets in the chief financial officer's line item.

Senator SNOWE. Okay. On the implementation of the Women's Procurement Program—you referred to it in your testimony—I congratulate you for bringing this crucial initiative closer to the finish line than it has been for a decade. Hard to believe that it has been that long that it has been pending. So I congratulate you for bringing it closer to implementation.

But there has been no funding for this program. So how, in fact, would this be implemented in the final analysis, and when can we make this program available to women-owned businesses?

Ms. MILLS. As you stated, we are very pleased, and I really want to commend my team, in particular, the general counsel who worked tirelessly from the starting date that we came on board, to bring this rule forward. It was actually passed in the year, I believe the year 2000. It is very important, and this is a fast growing and still underserved segment that we want to support.

The rule went out for comment last month, and it will likely, given the timing of the process, be a 2012 implementation, 2012 budget implementation. We are doing all the planning and preparation for moving forward, and in fact we rate ourselves on women business goals in any case. But we will use the facilities that we have now to move forward, to plan, to think through the oversight that we are going to need to execute this critical program.

Senator SNOWE. With respect to the overall situation with the economy and small businesses' role in creating jobs, what can we expect for an initiative here in Congress, in conjunction with the President, on the issue of small business?

I know the President has made this his top priority, as you have and as we have, but somehow there seems to be a discrepancy in priorities with respect to considering any major initiative for small businesses in the legislative agenda this year. I mean it is almost going to be six months that will have lapsed before we even potentially could consider any initiative here on the floor of the Senate. At least that is what it appears to look like at this point. Hopefully, that could change. We will urge it to change, but really we cannot alter the employment environment without making sure that we are giving all the resources to small businesses.

Ms. MILLS. We completely agree with you on the priority that needs to come on small businesses if we are going to create the

growth in employment that we need to get the country back on track. The President has put forth a Small Business Jobs Plan. The first, most important component is to extend the successful Recovery Act loan programs, so that we have access to capital.

There are a number of other pieces to the Small Business Jobs Plan in terms of access to capital that, in fact, you and this Committee have put forth—increasing the loan sizes, increasing the loan size on the SBA express product, so that we can provide lines of credit. Many businesses have had their lines of credit cut or reduced, and we have a product that we think will address those issues.

And in fact we have gone down every gap in the credit market and put forth a proposal in the President's Small Business Jobs Plan to fill that gap. Commercial real estate—we have proposed using our 504 program to do refinancing of existing owner-occupied real estate. That is the dentist that own the dentist office and the manufacturer that owns the warehouse. We propose that we use our 504 program, which right now can only be used for expansions, to refinance their mortgages, their commercial mortgages that are going to come due in the next 2010, 2011, 2012 period.

So we agree that this is an important priority. We think that there really has been tremendous collaborative thought, I think, between this Committee and the President's jobs plan, and we very much hope that these legislative initiatives will be passed as soon as possible.

Senator SNOWE. Thank you.

Chair LANDRIEU. I just have a couple of additional questions if you do not mind. The Women's Business Center's program has been extremely successful, as you know. You are familiar with the ones, I am sure. As is Senator Snowe in Maine, I am particularly involved with the ones in Louisiana and have been for years, even before I was a member of the Senate, and have witnessed the good work that they have done in the areas that they serve.

Despite all the improvements that we have made and the increased funding that we have requested for these centers—and I have a request in over and above President Obama's budget into the Budget Committee—we are understanding that because state budgets are being constricted due to the turndown in the economy, that many of these centers, Administrator, are not able to come up with the state match which is required to keep them open. It would be really ironic, at a time when our businesses need the most help from our Women's Business Centers, our Minority Business Centers, our university-based centers, that these would find their doors shuttered in our states and our communities.

So I have introduced S. 3165, the Small Business Community Partner Relief Act. I have several of my colleagues supporting this with me. What are your views about this, and is it something that you would support or recommend the temporary waiving of a state match requirement?

Ms. MILLS. We believe that these Women's Business Centers are one of the most important parts of our bone structure, and in fact I am happy to announce that last month we actually opened one here in Washington, D.C., that the mayor has helped us bring in

a really important area in need of economic development and impetus.

We have heard the same thing about the matching, the lack of matching funds, and it is of great concern, and we would be happy to have further conversation about what can be done about it. We agree that it would be a great shame for these resources not to be able to be used. They have our money available to them, and we want very much to have that money operationalized.

Chair LANDRIEU. And then following up, the Small Business Investment Companies Program, that has been operating for a while. We passed some significant reforms that have helped breathe new life into this program. Our Committee has been told that more than 50 funds are currently seeking a license, that many more are preparing their license applications. Given this stepped-up interest and potential growth, is the SBA going to provide any more staff to support this program, and if so, when, and if you could elaborate on what staff you have now assigned to reviewing these license applications?

Ms. MILLS. Yes. We agree, and we believe that the SBIC program is one of the most important foundational programs for helping high growth companies that we need to stimulate, to grow and create jobs.

We have set an objective to substantially increase the number of through-put in the SBIC program and reduce the time. And I will not give you this promise, but when we talk about it around the agency, we say twice the through-put, half the time—so twice the funds approved, half the time. So that is our mental picture.

We allocated already extra staff, and we have a tremendous new leader, Sean Greene, who is running that program and has reengineered the process. In fact, he created a program called Fast Track which is if you are an existing fund, you already have had a successful fund and you make a next application, that we promise to get your application through in two months. And we just successfully did that.

To give you a sense of the leadership there, the two months include the snowstorm. There was some discussion that perhaps there should be a 10-day extension of the 2 months because of the snow issues, and the team got together and said no, we made a promise, and we are going to make it. And they did.

So I really have to commend them. They really stepped up because they want to set the example that there is a new focus on this program.

Chair LANDRIEU. I commend you for that. But could you, if not at this moment, be more specific about the number of staff, at least submit that to the Committee for our record?

Ms. MILLS. I would be happy to get you the numbers.

Chair LANDRIEU. Okay. We would really appreciate that.

Let me, on this microloan, I wanted to just make sure we had on the record, the President's budget recommends reducing funding for the program, from its appropriate level of $25 million to $13.8 million, a cut of $12 million. Yet, the budget details the SBA plan to bring on 30 new intermediaries into the program in 2010. Can you explain how the SBA plans to increase the number of inter-

mediate micro lenders while at the same time reducing funding for the program by approximately 50 percent in the coming year?

I am particularly interested in understanding how the SBA plans to sustain its support for the current field of 160 intermediary micro lenders while bringing new ones on board. We are a little confused about this recommendation that you have made.

Ms. MILLS. To clarify and to explain the missing piece, the 2009, 2010, 2011 numbers do not include the Recovery Act. So, in the Recovery Act, we had $50 million of incremental fund microloan capability and $24 million in technical assistance. We have used that money to increase the number of intermediaries. We now have 178 intermediaries. We have added 20.

When you look at the number steady-state, including the Recovery Act numbers, there is actual a level effect because the additional $24 million in technical assistance is going out in a phase that will continue into fiscal 2011. So, in fact, it levels off the funding for technical assistance, and that is why you perceive that the amount is dropping, but in fact there is a carryover from the Recovery Act that does not appear in the budget book.

Chair LANDRIEU. Thank you for that clarification.

Senator Thune.

Senator THUNE. Thank you, Madam Chair, for holding the hearing today on the President's budget, and I want to thank Administrator Mills for being here and for making herself available for questions.

This is a difficult economic climate for small businesses, and a lot of small businesses are having to make hard decisions with regard to their budgets, as are a lot of families around this country.

It is important that we do the same thing here in Washington, D.C. We had some unprecedented levels of spending that have occurred here, and I think in an environment like we are in right now, an economic environment, we have an even greater responsibility than in the past to examine these budgets and to scrutinize them, and to make sure that we are ensuring Federal assistance is targeted and produces limited waste.

And that responsibility is particularly important for us on this Committee when we review the SBA's budget, as their mission is to assist our economic engine in our economy, and that is our small businesses. I, having looked at the budget, was pleased with several provisions and especially the increased loan sizes for the 7(a) and 504 programs.

I have concerns, some of which I think may have already been covered with regard to some of the spending in the budget and how it is directed. But in any event, I think as this process moves forward it is going to be important that we do our best to get this right and make sure that the economic engine, our job creators in our economy, our small businesses are in the best position possible to help our economy recover and to create jobs.

Let me just ask a couple things in that vein. I think you had mentioned, Madam Administrator, that the third priority for this budget is counseling. If that is true, can you explain why all of SBA's core and noncredit programs, including many of those counseling programs would be flat-funded in this proposal?

Ms. MILLS. Essentially, in this proposal, we have understood that there is fiscal discipline necessary, and we are looking for ways to do more with the same. In all of our activities, I think the net activities are essentially we want to maintain the efforts that we have out there—the 900 Small Business Development Centers, the 110 Women's Business Centers, the 350 chapters of SCORE.

The way we are looking to improve our service to small businesses is to invest in things like our information on our web, to simplify and clarify our programs and our communication, so that we can, and to break down silos between the Small Business Development Centers, SCORE, the Women's Business Centers, so that there is more coordination and collaboration. So we are focused on getting more bang for the buck out of what we call our bone structure. We have an extraordinary bone structure on the ground, and we are going to use this funding to continue it and to help in collaboration.

Senator THUNE. And I think, and this, maybe again, I suspect has probably been covered already, but the thing that is probably most concerning about this is the 89 percent increase in funding going to SBA operating costs. You may have perhaps responded to those questions already, but could you explain to me in detail what the executive direction budget is for? That evidently has 30 percent increase in funding over the fiscal year 2010 level and double the fiscal year 2009 levels—what that is and why the big increase there?

Ms. MILLS. Yes, and Senator Snowe has asked us to provide the detail on that, and we are happy to.

Actually, the entirety of the increase is related to what we call LMAS, which is our mainframe loan system, and our mainframe loan system runs on COBALT. For a number of years, we have been in the process of developing the replacement system. This is the year for the big expenditure on that system, and it has been in the funding plan for quite a period of time.

That lives, that project lives in our chief financial officer's office because we manage it not just as an IT project but as a core project for our entire system. So this is not a budget that increases the overhead spending in the core SBA central activities.

Senator THUNE. Okay. Could you give me a little more information too about the 2010 pilot that you mentioned that is reaching out to Native American-owned firms in 12 cities, including maybe what cities those are taking place in?

Ms. MILLS. Yes, we can give you the number, the cities, but we have some very terrific data on what we call Emerging Leaders. We have been running a program called E–200 in inner cities for a period of time. It is an intensive classroom-based experience. It is an entrepreneurship education program.

And we actually track what happens to businesses that go through that program. It turns out that businesses, I think it is 53 percent of the businesses increased their sales and the overall sales increase was over 50 percent. And we track other metrics, like how many people they hire. So it is one of the most powerful programs that we have.

This year, you may know we have very strong Native American activities. I actually went out and spoke to RES which is the gath-

ering of 2,000 Native American economic development people that happened in Las Vegas. We decided that this program might be very, very well tailored to cities with high concentration of Native Americans and that we would try to drive an additional 12 cities this year, with a focus on Native American activities. That is in process, and we are looking forward, I think, to the first graduation shortly.

Senator THUNE. Okay, good. Thank you.

My time is up. Thank you, Madam Chair.

Chair LANDRIEU. Senator Snowe.

Senator SNOWE. Yes. Administrator Mills, a couple years ago, legislation in the Senate was brought by then-President Bush regarding a Veterans Interagency Task Force, and I know we have been communicating by letter and between staffs as well, about now creating this task force. A lot of the certification issues have been resolved, I understand.

Since it has been two years and since we are going to see a drawdown in Iraq, obviously, we are going to have more and more veterans coming home. This is critically important to make sure all of the agencies are working in concert on so many of the issues that are important to veterans and assisting them and service-disabled veterans. So when can we expect this task force to formed, or has it, or is it in the process?

Ms. MILLS. Yes, Senator Snowe, we have not forgotten this. This is something that is in active development, and I guess I would say you will be hearing about this in very short order.

Senator SNOWE. Okay. I appreciate that.

Ms. MILLS. It is extremely important, very, very much on the Secretary's mind in Veterans Affairs, and we have a very strong collaboration going forward. This affects many, many agencies, and so we are pleased to take a leadership role in moving it forward.

Senator SNOWE. You were referring to your clusters initiative, which is an outstanding approach I think in bolstering regional innovation efforts, and you said that SBA's extensive bone structure with counselors and partners will play a critical role on the ground, supporting these efforts. Of course, you do have that bone structure through the SBDCs and Women's Business Centers as well as the SCORE chapters. But do you include those and incorporate that in your clusters initiative because the clusters initiative is I think you requested $11 million? It was $10 million last year.

Does that divert from the basic core programs and what SBDCs could do, for example?

Ms. MILLS. Let me give you an example of how the cluster money would provide incremental funding and activity in our SBDCs. We believe that the SBDCs are one, not the only way, but one way that we interact with clusters that will form.

In the 2010 budget, one of the clusters that is being funded is an interagency activity called an ERIC, an Energy Regional Innovation Cluster. The Department of Energy has put forth $120 million for a competitive bid. Any region can apply for a regional center on building, green building efficiency.

And we believe that many small businesses have expertise and should be included in a cluster around this regional innovation hub. So we have the opportunity, along with seven other agencies,

to make this an interagency cluster request for proposal. Every agency in that proposal has put forth money. The money that we have put forth will be available for the winning region to spend in its SBDC. So the Small Business Development Center will be our vehicle for delivering value to the cluster for small businesses, bring them into the cluster process and have them interact with the other activities.

Senator SNOWE. And so that is underway now? I mean that is in the process?

Ms. MILLS. That is the 2010 budget. We have other aspects that are happening in the 2010 budget in clusters, and the 2011 will also rely on what we call our bone structure, which is our SBDCs and our Women's Business Centers on the ground, because that is where we really deliver programs, and that is where we can affect a community of small business that is trying to cluster together.

Senator SNOWE. Are you hiring contractors to implement this cluster initiative? I mean is that how it is going to work effectively?

Ms. MILLS. In the direction that we got, it was required that we have to put these to contract, so that they will go through a contractor.

Senator SNOWE. So it is not something that the SBDCs and Women's Business Centers could do themselves?

Ms. MILLS. Well, yes.

Senator SNOWE. Without involving contractors?

Ms. MILLS. Yes, in some of the cases, I believe that we are able to use SBDCs and Women's Business Centers as the recipients of cluster funding. So we would be able to do that.

Senator SNOWE. I see. Okay. Thank you.

Chair LANDRIEU. I just have two more questions, and I hate to keep harping on this Microloan Program, but it has come up any number of times. We just provided in the Stimulus Act $30 million for microloans, $24 million for technical assistance grants and $6 million to leverage $50 million of intermediaries. These funds were supposed to go out quickly, have a fast impact, et cetera. Do you all have an update about how much of the $50 million in loan capital has been disbursed to date? Do we have a report on that?

Ms. MILLS. Yes. We can provide you with the numbers. It is well on track.

Chair LANDRIEU. Do you know what it is? Is it a certain percentage of the 50, half or more of the $50 million that has been disbursed?

Ms. MILLS. Let's see. If I do not have it here, I can give it to you, but it is well on track, the next set. What we did is we went through all of the 2009 money first and then all the 2010 and then in the Recovery Act. So we are in our sequence, but we are well engaged in getting that money out to intermediaries. We have already added the 20 new intermediaries, and we are about to put out all of the $24 million in the technical assistance.

So we can get you the exact numbers.

There is a process where it gets obligated. Then there is a process where it actually goes out the door. The actual going out the door, that is going to go quarter by quarter by quarter, and some of that will go into 2011, which was what was intended.

Chair LANDRIEU. Okay. Well, if you could give us those details because if there is something our Committee can do to expedite that process or enhance it in any way, we would like to try to do that because it is very, very important.

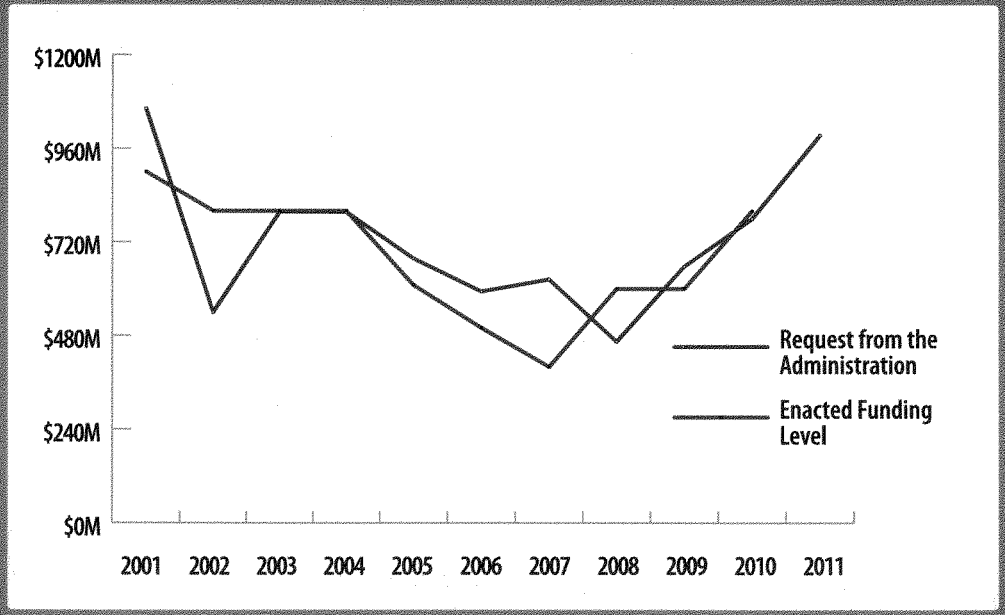
Ms. MILLS. We can do that.

Chair LANDRIEU. And again, we are going to pursue raising the caps on microloans. I know we have proposed in our legislation up to $50,000, but I may be convinced that it needs to even be higher.

As I close, unless, Senator Snowe, you have anything else, I just wanted to refer people's attention to this graph that we are operating under in terms of level of funding for the SBA overall. I am desperately trying, as a leader of this Committee, in this effort with my colleague, to get this budget for this agency back up to where it was 10 years ago, when we were not in the middle of a recession. We were actually creating millions of jobs in this country.

[The information follows:]

BUDGET REQUESTS VS. ENACTED FUNDING FOR THE SBA



Source: SBA budgets from fy01 to fy10.

Now I am not saying the SBA budget and its level has a direct impact, but I think that if this agency is well resourced, well led, with effective and targeted programming, we can be a big help in supporting the millions of small businesses out there that are going to be the entities that create the jobs that end this recession.

And I think again, as Senator Snowe said, we are preaching to the choir because we in this room are here because we believe that. I am going to do even more than I have done to try to get the attention of the leaders of both parties to focus on getting the time we need, and the proper legislation and support that we can to give the small businesses in America, whether it is tax relief, targeted and fiscally responsible, or whether it is program support—and to give our governors and our departments of economic development in all 50 states and in many of our large, medium and small cities, that are struggling to identify the businesses in their jurisdictions that have the potential to grow, for us to be the very best partner we can.

There is an urgency about this. I would like to see this mood. It is not a mood ball, but it is a mood graph. But I would like to see it turn to a more positive outlook, and a lot of that can be driven in large measure by the work of this Committee. We are not completely responsible, but we want to provide help, and I think we have in many ways.

So that is what I will say to close this hearing. Is there anything, Senator Snowe, that you want to add to that?

Senator SNOWE. Well, I just want to reiterate what you have already indicated, and I know that you share the concerns, Administrator Mills, but it is disturbing that we have not been able to facilitate a small business jobs bill at a time when it is critical and the circumstances are dire.

There is no question about it. It is all about jobs, jobs, jobs. It is not materializing, and it is severe. It is more severe when you compare all the previous recessions. I think that is certainly what Mark Zandi, the economist, indicated before the Finance Committee.

If you look at the severity in the long-term unemployed and the underemployment that is so extensive, up to 17 percent, and the job creation is not happening. There is no certainty. There is no confidence. That is really, I think, a telling indicator of what is the characteristics of the economic situations on Main Streets across this country, in every community.

So we have to do everything we can, to use the resources to turn this around and help to rejuvenate the job creation. It can only happen through small businesses.

There is no sense of urgency which is really surprising, frankly, here. That should have been on the top of the agenda. We should have gotten it done. We should have accomplished it.

It is lagging, and it is only going to get worse because we know that unemployment is a lagging indicator to any event. You see what is happening in the small business sector. Clearly it is just not going to turn around very quickly, so we have to get these resources into the system, and it is not happening.

I think we will do everything that we can. We hope that you will as well at the executive level, to transmit those concerns. A day should not go by that we should not be figuring this out.

And how to pay for it? I think we can figure out the ways. I think that there are obvious ways in which we can pay and provide for offsets to this legislation.

I was tasked by the Leader to do that. I said, well, I will come up with them. They keep using them for other reasons, but I will keep coming up with them.

Chair LANDRIEU. I just want to add, I know that the President has been, and will continue to be, extremely supportive. There were some other priorities. The country has to deal with a real deficit in health care for the American people, a drag on our budget, inability to balance our budget without that attention. We have had to stabilize Wall Street to stave off a collapse of our financial system. But I think now, Administrator Mills, is the time where we have to put on a full-court press, all engines open on this small business job creation piece.

I am very proud of this Committee, having passed out five major pieces of legislation in a very bipartisan manner. I would like to be working with you, as we talked before this meeting, intently next week to see if there are any additional things that we could potentially add and get a package to the Floor of the Senate as soon as we can, in this work period, to give a strong, positive signal to the small businesses out there struggling to stay afloat, keep their doors open and hire the jobs necessary to end this recession.

Thank you very much, and meeting adjourned.

[Whereupon, at 3:51 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

SBA Responses to Oral Questions for the Record

U.S. Senate Committee on Small Business & Entrepreneurship
Fiscal Year 2011 Budget Hearing (held April 21, 2010)

Submitted on behalf of
Administrator Karen G. Mills

May 5, 2010

QUESTION FROM CHAIR LANDRIEU (paraphrased): Please elaborate on what staff you have now assigned to reviewing these [Small Business Investment Company (SBIC)] license applications.

SBA RESPONSE: *SBA currently has five analysts that review/process potential SBIC applications. This is exclusive of supervisory and administrative personnel. Additionally, SBA has hired one additional analyst who will begin work next month. SBA has posted a vacancy announcement for another analyst position that it hopes to fill in the near term.*

QUESTION FROM CHAIR LANDRIEU (paraphrased): Do you have an update of how much of the $50 million in [microloan] loan capital has been dispersed to date?

SBA RESPONSE: *As of April 29, 2010, $38,730,333 in microloan funding has been obligated, leaving $11,269,667 in available loan funding.*

* * * *

Post-Hearing Questions for the Record

"The FY2011 Budget Request for the Small Business Administration"
April 21, 2010

Questions for the Record from Senator Mary L. Landrieu to the Honorable Karen G. Mills

1. **I have heard from my local chambers of commerce (SWLA Chamber and GNO, Inc.) that following Hurricanes Gustav and Ike of 2008, the SBA was extremely prepared and responded quickly following the storms. Those improvements are due in large measure to the work of this Committee, as well as the leadership of former SBA Administrator Steve Preston.**
   a. **Do you believe that the reforms to date, as well as the disaster funding included in this Budget request, will allow SBA to effectively respond to disasters which may occur during Fiscal Year 2011?**

   Yes, the SBA believes we have sufficient funding to respond to an average disaster year during FY2011.

2. **It is my understanding that as of January 31st, the SBA had $131 million in disaster loan administrative expenses – enough to last through FY2010 if there are no catastrophic disasters. The Agency also had $846 million in disaster loan authority, sufficient to make approximately $7.8 billion in disaster loans.**
   a. **What are the current levels of disaster administrative expenses and disaster loan authority?**
      As of April 30, 2010, the agency had $91.6 million in disaster administrative expenses and $840 million in disaster loan subsidy that would support $7.8 billion in program authority.
   b. **The Budget request includes $203 million for disaster loan administrative expenses but no funding for disaster loan authority. Does SBA require additional appropriations for disaster loan authority at this time? [Yes or No]**
      At this time, the agency does not require additional appropriations for disaster loan authority.
   c. **I am interested in the SBA's ability to respond to multiple disasters occurring during this fiscal year. Based upon the 10-year average of previous disasters (excluding disasters such as Katrina/Rita/Wilma or the September 11th attacks), if a disaster occurred today and the SBA had to utilize up to $100 million of disaster loan authority to assist business owners, would the Agency still have sufficient funding on hand to respond to non-catastrophic disasters which may occur through the end of the fiscal year? [Yes or No]**

Yes. If the Agency had to utilize $100 million in disaster loan authority (subsidy), the agency would have an available subsidy level of approximately $740 million that could support $6.9 billion in lending.

3. **A top priority for this Committee has been to reverse the downward spiral of funding allocated to the Small Business Administration. Under President Bush, as highlighted in the charts presented during my opening statement, the Agency's funding was cut 27 percent. As the incoming Chair – and a member of the Appropriations Committee – I am committed to continue working with the Administration to reverse this trend.**

   It is my understanding that as part of these funding cuts, SBA staff was reduced 26 percent from 2001 to 2008. To ensure that we can re-energize this Agency, I would like to know what we are working from in terms of full-time employees. For example, where the Agency was, where it is now, and where it is heading under this Budget request.

   a. **What was the Agency staffing level in January 2001?**
      As of September 30, 2000, the number of FTE's at SBA totaled 4,262, composed of 3,010 regular positions, 1,137 disaster positions, and 115 positions for the Inspector General.
   b. **What was the Agency staffing level in 2008?**
      As of September 30, 2008, the number of FTE's at SBA totaled 3,636, composed of 2,094 regular positions, 1,436 disaster positions, and 106 positions for the Inspector General.
   c. **What is the Agency staffing level today in 2010?**
      As of April 30, 2010 -- not including 80 ARRA positions -- the number of positions at SBA totaled 2,129 regular positions, 2,870 disaster positions, and 109 positions for the Inspector General.
   d. **How many full-time employees does President Obama's Budget request support?**
      The President's FY 2011 Budget request supports a total of 3,502 FTE's for SBA, composed of 2,209 regular positions, 1,171 disaster positions, and 122 positions for the Inspector General.
      i. **Earlier this month, I sent a letter to you inquiring about the vacant Alternative Work Site (Regional Manager) position in Shreveport-Bossier, LA. This position has been vacant since 2005. I am concerned that the New Orleans office does its best to cover this area but it is 300 miles away. Do you have any updates on agency efforts to fill this position?**

   We intend to have the best team going forward to serve the small business community of Southern as well as Northern Louisiana and we will make every effort to assure continuous operations and service. We are constantly evaluating our resource needs and how to better serve the nation's small businesses. After a vacancy occurs in a district, we move quickly to make sure the needed resources

are there and available to move the mission of the SBA forward. We are continuing to look into your request in order to maximize our use of available resources.

4. **In my home state of Louisiana, we have two key U.S. military assets – Fort Polk and Barksdale Air Force Base. For these and other reasons, I have long been a champion for our military, and especially our returning veterans/reservists. Early on in my Senate career, I had the honor of serving as the first female Democrat to chair the Armed Services Subcommittee on Emerging Threats (during the 107th Congress). Veteran and military issues are something close to my heart, especially when it comes to helping our veterans that own small businesses.**

   Since, 2001, more than 2 million service members have deployed in Operation Iraqi Freedom and Operation Enduring Freedom. Upon return, 18 percent of veterans are unemployed one to three years later, and of those who are employed, 25 percent earn less than $21,480. Returning veterans have sacrificed on our behalf and deserve the Federal government's assistance in returning to civilian life – particularly in finding gainful employment.

   This Committee has recommended that additional funding go to the SBA Office of Veterans Business Development to handle the increased demand for services by returning veterans and also to fund the three (3) veteran centers created by the National Veterans Business Development Corporation (TVC). The Congressional Appropriators have agreed with this sentiment and have provided extra funding for the office in both FY2009 and FY2010.

   In FY2009, the Office assisted more almost 123,000 veterans, a 64% increase over the SBA's goal for FY2009.

   a. **In your opinion, did the $1.2 million requested for the Office in FY2009 provide the Agency with adequate resources to meet this increase in demand?**
      i. **To what do you attribute this surge in interest/demand for the program?**
      ii. **Do you anticipate that this increase in demand will continue during FY2011?**

a. Yes

a(i.) and a(ii.)

The Office of Veterans Business Development (OVBD) acted aggressively in conducting outreach to the veteran and reservist community. In FY 2009, we expanded the number of VBOCs to 8, by entering into agreements with the 3 Centers previously funded by The Veterans Corporation. We also expanded the funded portion of the District Office Veterans Outreach Initiative to 23 SBA district offices in FY 2009. We continued our

cooperative efforts with the Department of Defense and the Department of Labor and increased our collaboration with the Department of Veterans Affairs. We noted that the largest segment of VBOC service users were 25 to 34 year old veterans and reservists; we believe this is a reflection of our aggressive outreach and collaboration. We also believe that the Patriot Express Pilot Loan initiative continued to provide a financing option to veterans, and also generated additional interest in business counseling, training and SDVOSB procurement. In FY 2010, we are increasing all of these initiatives even more, by expanding the number of VBOCs to 16, and by growing the number of district offices conducting OVBD funded outreach and collaboration to veterans and reservists and veteran-serving organizations.

We anticipate continued and growing interest in all SBA programs and services from veterans, reservists and their families in FY 2011.

5. **For more than 20 years, the Women's Business Center (WBC) Program has successfully provided business counseling and assistance to women, with an emphasis on those who are socially or economically disadvantaged. The program has grown from just a few centers to one hundred and ten (110) today. In Louisiana, we have two (2) Women's Business Centers – one in New Orleans and one in Lafayette.**

   In the past year, this program has undergone a number of significant and positive changes. In addition to hiring a new Assistant Administrator to head the Office of Women's Business Ownership (which administers the program), the SBA has taken significant steps to improve the performance and oversight of the program, mainly through improvements to the financial auditing and review process.

   Despite all of the improvements that have been made to the program in the last year, many centers have been adversely affected by the recession. Due to cuts in funding by local governments and universities that often partner with WBCs, many centers are struggling to raise the non-federal matching funds required to receive funding from the SBA. In the last year alone, as many as 9 centers closed or requested reduced funding from the SBA due to their inability to raise non-federal matching funds.

   a. **Do you think temporarily waiving the non-federal match requirement will allow more centers to keep their doors open? [Yes/No]**

If the match is waived, there is a concern that the centers would have a portion of their operating funds cut for an indefinite period which may be more harmful than helpful. It may also be difficult to reinstate the match in the future, and the loss of local buy-in and participation would be troublesome.

However, if the agency is afforded such administrative flexibility, we would add safeguards to the process by establishing procedures to allow the centers to apply for a temporary match waiver on a case-by case basis. Match waivers or reductions will only

be granted to WBCs that are credible and viable and can show that such action will not negatively affect the delivery of services or the viability of the center.

6. **Could you elaborate on the changes the SBA has made to the Women's Business Center program, as well as how the Agency plans to use the resources devoted to the office to continue making improvements in FY2011?**

   - Administrator Mills has allocated additional resources to continue a schedule of financial reviews so that each center is reviewed approximately every third year.
   - OWBO is collaborating with the Office of Field Operations to clarify and strengthen the role of the district offices in support of the WBC program.
   - OWBO is implementing high level performance management measures to improve its effectiveness and efficiency in customer service, internal operations and portfolio management to meet the needs of the women business owners.
   - OWBO is increasing its visibility and strengthening its staff proficiency in federal procurement processes, lending products and outreach to underserved markets.

7. **Currently, only two (2) states, Idaho and Kentucky, and two (2) U.S. territories are without centers.**
   a. **What are your thoughts on how to address the needs of women-owned small businesses in these areas, especially in light of the difficulties many centers have experienced in raising matching funds?**

      The funding level for the WBC program in FY 2010 or FY2011 does not allow for the opening of new WBCs unless we reduce the amount of funding for all the existing centers. OWBO's managed growth plan is to fund existing centers to the highest possible level (to a statutory maximum of $150,000). If an existing center closes its doors due to inability to provide non-federal match, that amount of funding will go to a program announcement in those two states and two territories.

      In the meantime, we hope that women business owners in need of counseling and training will reach out to their local SBA field office, SBDC and/or SCORE chapter.

8. **One of the most important programs operated by the SBA is the Small Business Development Center (SBDC) program. These centers, funded through SBA and operated in cooperation with local universities, create thousands of jobs on a yearly basis. In FY2009 alone, these centers created or saved approximately 150,000 jobs. Further, this program provides results in a cost-effective manner – for every Federal dollar spent, $2.20 is returned to the Treasury in the form of increased tax dollars.**
   a. **What improvements or changes does the SBA plan to make to the SBDC program in FY2011?**

In FY2011 SBA will explore ways to have the SBDCs increase their support of the National Broadband Plan, raise awareness of the importance of a disaster readiness/business continuity plan and enhance counselor competency in the areas of advanced technologies and international trade assistance.

9. **Since it was created in 1964, the Service Corp of Retired Executives (also known as SCORE), has provided counseling to more than 8.5 million small business owners. In FY2009 alone, SCORE assisted more than 523,000 small business owners, leading to the creation thousands of new jobs at a minimal cost to the taxpayer.**

   Prior to the FY11 budget request, SCORE had been flat funded at $5 million or less for eight years. Due to inflation, the purchasing power of that funding has declined while costs have continued to rise. This has made it difficult for SCORE to improve its services and accommodate increased demand due to the recession.

   a. **How does the SBA plan to use the additional $2 million in funding included in the FY2011 Budget request? Please be specific, naming new projects or initiatives.**

The additional funds will be used to enhance SCORE's online delivery system which could include content creation for online workshops, podcasts, and additional distribution outlets as well as increased marketing tools and funding for evaluation of SCORE's business advising.

10. **In FY09, SCORE experienced a 9% increase in the number of clients served.**

    a. **Do you anticipate that the increase in demand for the services offered by SCORE will continue into FY11? [Yes/No]**

       No

    b. **If yes, please explain how the requested level of funding will allow SCORE to adequately meet the increased demand for their services?**

SCORE has been very active in supporting small businesses during this time of economic recovery. The $7m level from FY10 represents a substantial increase from many preceding fiscal year funding levels. SCORE's business plan leverages capacity through improved delivery models and this coupled with the leveraging of SCORE online resources, its private sector alliances and specialized training such as the Broadband Initiative is expected to be responsive to the needs of the small business sector.

11. **During President Obama's State of the Union Address on January 27, 2010, he announced the National Export Initiative (NEI) and pledged his commitment to doubling U.S. exports within the next five years, primarily by engaging small businesses. The SBA is well-positioned to play a prominent role in this effort,**

particularly through the export financing and technical assistance programs led by its Office of International Trade.

a. **With this in mind, how will the Agency utilize the resources devoted to the Office of International Trade to support the NEI and achieve the President's goal of doubling U.S. exports within five years?**

In response to the NEI, SBA has developed a four-pronged approach to assist small businesses in becoming exporters. The four main areas of focus for assistance to exporters are identification of potential exporters, training and counseling, identification of business opportunities, and trade finance support.

SBA's Office of International Trade (OIT) has mobilized its entire staff both at Headquarters and in the field to identify small businesses that have the potential to export their goods and services. We are taking a more proactive approach to how we work with small businesses in the areas of counseling and training to demonstrate the merits and nuances of conducting global trade. In partnership with the Department of Commerce, International Trade Administration, and the U.S. Commercial Service, we help small businesses identify business opportunities overseas. We are also working closely with our participating lenders to ensure that small businesses have the ability to finance their trade transactions.

Administrator Mills, through OIT, is leading the Trade Promotion Coordinating Committee (TPCC) Small Business Working Group. The working group was established by Secretary Locke to ensure that small businesses have the resources necessary to become exporters. The working group has representatives from several U.S. Government agencies, including SBA, DOC/ITA, Ex-Im Bank, OPIC, USDA, DOD, Labor, Department of State, USTR and the TPCC Secretariat. All members are working collaboratively to ensure that the services of these agencies are made available to small business exporters.

12. **The FY11 budget request includes $5.6 million for the Office of International Trade. While the increase in funding is welcome, it represents a mere 3% increase from the Administration's FY10 request. Other federal agencies involved in assisting small business with export promotion -- such as the Department of Commerce and the U.S. Export-Import Banks -- received significant increases in funding for their export assistance programs in the FY11 Budget.**

    a. **As the primary federal agency responsible for assisting U.S. small businesses, can you help us understand why a similar increase in funding was not requested for SBA's international trade and export promotion programs, as compared to other federal agencies involved in export promotion?**

    In support of the President's NEI pledge to double U.S. exports within the next five years, the SBA is leveraging its existing resource partner network to ensure that small businesses have the knowledge necessary to become exporters. SBA's resource partners include Small Business Development Centers (SBDCs), Women's Business Centers, SCORE Counselors and our participating lenders.

SBA is preparing training materials to ensure that SBA's resource partners are prepared to work with potential small business exporters. The goal is to provide high-quality professional development instruction through either in-person training or webinars in FY 2010 and beyond. By extending export readiness recognition and a familiarity with available export facilitation resources to our counseling specialists and participating lenders, many more export-capable companies will be directed to the appropriate assistance to make their first export sales. This training will be modeled after the international trade training that SBA has provided, in partnership with the Association of SBDCs, to SBDC counselors during their last two annual conferences. This training will continue into the future and be expanded to include all resource partners.

13. **One of most effective programs operated by Office of International Trade is the export finance specialist program, which assigns SBA personnel to U.S. Export Assistance Centers operated by the Department of Commerce. In FY 2009 at a minimal cost to the taxpayer, 17 export finance specialists facilitated 1,500 trade loans generating approximately $1.6 billion dollars in export sales and creating or saving approximately 17,000 jobs.**

    The addition of a specialist in New Orleans, Louisiana, raised the total number of specialists maintained by the SBA to 18. However, seven years ago, the Agency maintained as many as 22 specialists.

    a. **Does the Administration have any plans to fill these remaining vacant positions? [Yes/No]**
        i. **Follow up (if yes): When will these positions be filled? Which USEAC locations will receive priority?**
        ii. **Follow up (if no): Why has the Administration chosen not to fill these positions?**

    The SBA recognizes the value that the export finance specialists bring to the program and the assistance that they provide to small business exporters. During FY09, SBA hired two additional export finance specialists to cover two high-priority markets -- New York and Louisiana. With the 18 specialists that we currently have on board, we are able to provide coverage throughout the U.S. During the last several years, we have substantially increased the travel budget for the export finance specialists so that they have the ability to visit their regions on a regular basis.

14. **As most of us know, one of the principle functions of the SBA is to ensure that the Federal government meets its 23 percent small business contracting goal. And the FY2011 budget for the SBA takes that seriously, noting that one of the President's top four performance goals (page 2) is to "increase small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms."**

a. **First, to meet this goal, do you intend to increase the contracting oversight staff at the SBA – Procurement Center Representatives (PCRs) and Commercial Marketing Representative (CMRs)?**

Since the beginning of the calendar year 2010, SBA has recruited or is in the process of recruiting for the following positions, some of which are being recruited to fill vacancies:

- 7 PCRs
- 2 CMRs
- 1 Natural Resource Specialist
- 1 Industrial Specialist
- 5 developmental PCR positions

15. **Second, in your testimony, you said that "you look forward to implementing the women's contracting rule."**

a. **The 2011 fiscal year starts in a little more than five months, so what is the target date for implementation?**

The comment period for the proposed rule closed on May 3, 2010. SBA received approximately 1,000 comments and is in the process of cataloguing and analyzing them in order to determine if any changes need to be made to the final rule. SBA's intent is to have a final rule issued by the end of the calendar year.

16. **What plans do you have to ensure that minority small businesses – whether through the 8(a) program or as Small and Disadvantaged Businesses -- have full access to the Federal marketplace?**

Supporting underserved communities – including socially and economically disadvantaged businesses, minority-owned, women-owned, veteran-owned, and HUBZone firms – is a priority for our office of Government Contracting and Business Development. In particular, we aim to meet the government's prime contracting goals in the four socio-economic categories, in addition to meeting the 23 percent small business prime contracting goal.

On April 26, President Obama signed a Presidential Memorandum establishing an Interagency Task Force on Federal Contracting Opportunities for Small Business. This Task Force, which will be co-led by SBA Administrator Mills, OMB Director Orszag, and Commerce Secretary Locke, will develop proposals and recommendations to expand Federal contracting opportunities for small businesses. Moreover, the group will develop a transparent dashboard to measure agencies' performance in meeting their small business contracting goals, including the four socio-economic goals, and will devise strategies to improve outreach to a variety of small business groups.

In addition, our local district offices and resource partners continue to provide training and technical assistance to small businesses. SBA provides advice on how to do business

with the federal government and win a federal contract. District offices and PCRs are also increasing contracting opportunities to underserved communities by conducting matchmaking events, finding more subcontracting opportunities, and creating more partnerships through mentor protégé program, teaming, and joint ventures.

SBA is not only focused on training small businesses; we are committed to training and developing our staff and agency procurement officials as well. SBA is creating training for contract officers and is bringing the district office staff in for a week-long training on programs that serve underserved communities, including the 8(a) and HUBZone programs.

Finally, as part of a comprehensive review of our 8(a) program's regulations, we will be working to ensure that the program remains a powerful tool for socially and economically disadvantaged businesses and that its benefits flow to the intended recipients.

17. What are your plans to support Service Disabled Veterans access to the Federal marketplace?

As thousands of our veterans are returning home, it is critical that they have the ability to start and grow a business, which includes ensuring that they have opportunities in Federal contracting. We have begun work on several items at SBA to ensure that we are overseeing and administering the Service-Disabled Veteran-Owned Small Business (SDVOSB) program as effectively as possible:

- **Highlighting focus of Administration on issues:** President Obama signed the Executive Order on the Interagency Task Force on Veterans Small Business Development (EO 13540) and Presidential Memorandum on the Interagency Task Force on Federal Contracting Opportunities for Small Businesses on April 26, 2010. The Interagency Task Force on Veterans Business Development will focus on issues pertaining to service-disabled veterans, including improved access to capital, improved capacity, and achievement of the pre-established Federal contracting goals for SDV firms;
- **Working collaboratively with VA:** This includes better data and better access to that data for both the SBA and the VA. Teams from both agencies have met several times in the last few months to discuss a wide range of important issues that touch both agencies, including the SDVOSB program. Administrator Mills has met with Secretary Shinseki and his Deputy Secretary as well;
- **Enhancing oversight to eliminate fraud, waste and abuse:** We have enhanced our SDVOSB bid protest process by implementing stricter terms for those firms found ineligible. For example, we have instituted a new policy where firms that are found ineligible must de-certify themselves in CCR within 30 days of our determination or they will be referred to our IG. We have conducted 111 SDVOSB bid protest reviews YTD in FY 2010. In all of FY 2009, we conducted 94 SDVOSB bid protests. We will continue to explore new ways, given our resources, to make our surveillance of the program more robust; and

- **Improving outreach and processes:** We need to make sure the certification process is both efficient and effective for both veterans and taxpayers. We also need to provide targeted outreach to make the federal contracting market less confusing and more accessible to the SDVOSB community. In fiscal year 2010 and succeeding fiscal years we are focusing on enhancing OVBD outreach, counseling and training to all veterans, especially service-disabled veterans. This is happening in our VBOC program (Veterans Business Outreach Program) which grew from 8 centers in FY09 to 16 centers in FY10. In addition, we continue to grow local outreach initiatives developed and implemented by SBA district offices, as well as, "on-line" services.

18. The President's budget includes a proposal to provide the "SBA [with] the flexibility to adjust fees over time to make the program more self-financing." Currently, the maximum guaranty fees that borrowers pay, and also a maximum yearly fee that lenders pay, are established under the Small Business Act, by Congress. Many members, on both sides of the aisle, did not agree with President Bush in 2005 when he pushed the program to zero subsidy and it was slipped into an omnibus bill in the middle of the night. And there is long-standing skepticism that OMB gives the SBA and its programs fair assessments when calculating the relevant cost estimates. As such, many are uncomfortable giving the Administration this Congressional oversight power.

a. Please provide us with more detail about the legislative proposal coming and explain why the Administration feels it needs this authority instead of making a case when it wants to increase fees.

The SBA and the Office of Management and Budget are currently working on this proposal and should be submitting its legislative proposal very shortly. This would give the SBA the flexibility to increase and decrease fees in the 7(a) program, without requesting a legislative proposal every time that cost estimates vary.

19. The Administration's Budget proposes to increase the borrower fee from 0.389% to 0.749% per annum starting in 2011 for borrowers in the 504 program. At a time when businesses are facing tightened lending requirements, increasing their loan fees will create one more financial blockade they must surmount in order to utilize the SBA's financing programs. To offset the increase in fees charged to borrowers in the 504 program, and to offset the increased borrower fee for the CDC, I have recommended a total of $4.6 million for the 504 program in FY2011.

a. Administrator Mills, are the Committee's estimates correct that it would take about $4.2 million to prevent an increase in the borrower fee and $1.2 million to offset the CDC fee? [Yes/No]

i. If no, what are the amounts?

No. To prevent the borrower fee from increasing from .389% to .749% would require $167.4 million in additional subsidy.

b. Is it true that the President did not request funding to offset these fees in the budget? [Yes/No]

i. If no, please explain why and how it does not hurt small businesses and their access to this capital.

The 504 program is a zero subsidy program and the administration has the authority under its current regulations to increase fees on the 504 program. Therefore, it was not necessary to request additional subsidy for the 504 program.

20. The President's FY 2011 budget recommends reducing funding for the SBA Microloan program from its FY 2010 appropriated level of $25 million to $13.8 million – a cut of about $12 million. And yet the budget detail indicates that SBA plans to bring 30 new intermediaries into the program this year – in FY 2010.

a. Can you explain how the SBA plans to increase the number of Intermediary Microlenders participating in the program while at the same time reducing funding for the program by approximately 50% in the coming year?

To expand SBA's points of access in the Microloan Program, the Agency will continue to recruit new microlenders. As of May 17, 2010, nine intermediary lenders have entered the program for the first time this year. The Microenterprise Development Branch and the Office of Field Operations have begun conversations to determine new ways to market the Microloan Program through our District Office Network to attract new intermediaries. A training committee has been formed to address internal Microloan Program training to improve marketing capacity and to add to locally based interest in the program. SBA experts are also attending conferences at which the program is being marketed.

Furthermore, the SBA has leveraged additional funding resources that have been available under the Recovery Act. The continued availability of Recovery Act funds through September 30, 2010, will allow us to use Fiscal Year 2010 funding (which expires on September 30, 2011) to stretch available loan dollars and grant funds through Fiscal Year 2011. We anticipate that this will help to ensure that Program intermediaries will have sufficient technical assistance and training funding through the end of Fiscal Year 2011. Training has also been provided to Microloan Program Participants to assist them in increasing their use of the many technical assistance resources available through our District offices.

21. Through ARRA, the SBA was provided with $30 million for microloans -- $24 million for technical assistance grants and $6 million to leverage $50 million that SBA Microloan intermediaries could lend out. ARRA funds were intended to go out quickly to have a fast impact on the lack of capital, preserve jobs and create jobs.

a. **Please tell me how much of the technical assistance (TA) grant funding has been obligated.**

As of May 17, 2010, 75 ARRA grants have been approved and grant documents have been issued for a total of $22,565,791.

b. **Please tell us how much of the $50 million in loan capital to SBA Intermediary Microlenders has been disbursed.**

As of May 17, 2010, 71 loans have been made to Microloan Program Intermediary lenders for a total of $40,030,333. Of that amount, $9,372,000 has been disbursed to microlenders for making microloans.

22. **I was pleased to work with my colleagues on the Appropriation's Committee last year to include bill language in the Consolidated Appropriations Act of 2010 that raised the cap on an Intermediary Microlenders annual TA grant from 25% of its outstanding loan from SBA to 50 % of its outstanding loan. I did this because my colleagues and I were hearing from Intermediary Microlenders who were telling us how much time they were spending with their business borrowers – providing hands on technical assistance and work-out advice to help existing borrowers keep their businesses afloat during this economic slowdown. These demands on these Intermediary Microlenders is growing as conventional lenders pull back from small business lending – leaving more and more businesses turning to the SBA Intermediary Microlenders as the lenders of last resort.**

    a. **With that as the backdrop – can you tell me how and when the 50% cap was put in place and whether Intermediary Microlenders have secured their TA grants for FY 2010?**

    Based on the statutory authority to increase the funding up to 50%, we were able to raise the cap on grant funding to 44%. We believe that this will ensure that all Microloan Program Intermediaries receive the maximum amount of funding possible. As of May 7, 2010, all ARRA grant documents had been issued to the intermediaries along with requests for supporting documentation.

23. **One of the changes I would like to see in the budget concerns SBA's Office of Advocacy. As you know, the SBA Office of Advocacy is a vital office that serves as the independent, "regulatory watchdog" for small businesses within the federal government, ensuring that federal agencies adhere to their requirements under the Regulatory Flexibility Act (RFA). Advocacy also produces research studies on issues of key concern to entrepreneurs. This original research provides critical information to small business stakeholders and policymakers, including Congress, and, more specifically, the Senate and House Small Business Committees. In order to preserve Advocacy's independence, to enhance its mission of representing the nation's small businesses within the federal government's legislative and**

a. **Would you support this in the future?**

We do not support this as a separate line item within the Executive Direction. We know that included within the Executive Direction in the President's FY 2011 Budget submission is operational funding of $1.8 million for the SBA's Office of Advocacy. This level of funding does not include the cost of compensation and benefits for the Office of Advocacy which would be in excess of $3.5 million. If the Office of Advocacy is included as a separate line item similar to that of the Inspector General, funding would need to be $5.3 million for FY 2011 instead of the $2.5 million proposed.

24. **Last year, in the FY2010 appropriations bill, I worked with Senator Durbin and Senator Snowe to restore funding for the Federal and State Technology (FAST) Partnership program, established by Senator Bond. As you may know, this program had not been funded since 2004, even though it had proven effective at increasing participation in the SBIR program in states with low participation – Louisiana and Missouri, to name two states, with LSU and Louisiana Tech leveraging this program successfully. I was very pleased that we succeeded in getting $2 million to restart this important tool.**

a. **Given that the President's budget has "improving" the SBIR program as one of his "high priority performance goals" (pg 2), why didn't the Administration request funding for the program that increases awareness of and participation in the SBIR program?**

SBA's statutory authority for the FAST program sunset on October 1, 2005 under Public Law 106-554.

b. **Where is the SBA in obligating the FAST funding for FY2010, now that we are more than half way through the fiscal year?**

The period for submitted applications for the funding closed on May 10, 2010. SBA is in the process of evaluating the applications and will make awards in the next several months.

U.S. Senator David Vitter
U.S. Senate Committee on Small Business and Entrepreneurship
Questions for the Record
April 21, 2010

To Administrator Karen Mills:
Administrator Mills, I am concerned about Louisiana businesses affected by Hurricanes Katrina, Rita, and Gustav, many who received SBA disaster loans. That economic hurt has been compounded by the recession. To help these businesses, I am interested in the SBA's efforts to help modify these SBA loans and bring down the interest rate to lower payments.

- **How many SBA loans have been modified? Also, how many SBA disaster loans have been modified to lower the interest rate?**

  Following the Hurricanes Katrina, Rita and Gustav, affecting Louisiana businesses and home owners, the SBA Disaster Loan Servicing Centers in Birmingham and El Paso assisted borrowers with:
  - 29,891 deferments on loans with outstanding balances of $1,943,704,096;
  - Reduced interest rates on 1,214 loans with outstanding balances of $67, 475,706;
  - Reduced or modified payments on 83,669 loans with outstanding balances of $5,044,127,557;
  - 4,402 subordinations to assist other critical financial needs of our borrowers.

- **Is the SBA actively reaching out to businesses to help them modify their loans?**

  The SBA actively works to assist both residential and business customers to recover from disasters. This process begins with the granting of low interest loans and generous repayment terms. In situations where there is substantial need, the SBA will take subordinate positions on collateral and has rules in place that allow it to loan funds on the basis of need and not strictly on the "loan to value" ratio of the available collateral.

  In situations where the 4% interest rate has proven to be a persistent stumbling block to the successful repayment of an SBA Disaster Loan, we have recommended a reduced interest rate. It should be stated, however, that a decrease in the interest rate is not often a first line of attempted assistance, partly because SBA's Disaster Loan Servicing Centers have more effective tools to help borrowers who are in need. SBA has found that several loan modification tools, including loan repayment deferments, temporary or permanent monthly payment reductions, extensions of maturity, due date changes, and agreeing to subordinate SBA's lien positions, often produce satisfactory immediate relief for borrowers facing disaster situations.

  Once a loan has been disbursed, the SBA's Loan Servicing Centers offer a range of options to assist borrowers to repay their loans. These Centers actively pursue contact with SBA's small business customers, whether on home loans or business loans. The SBA Loan Servicing Centers discuss delinquency, make payment arrangements, and ascertain situations where servicing actions may help a business or homeowner through

economic difficulty. All monthly statements also include contact information for the customers' convenience to find relevant SBA staff support resources. Also, the Centers pro-actively assist customers by directly contacting them if the loan becomes ten days past due. The Centers' staff has been trained to be highly understanding and cooperative when speaking with these disaster-struck customers, in the attempt to discover the case-by-case financial situation behind any past-due loans.

- **Is there a consistent assessment process within the SBA to identify businesses that may be in trouble? If so, once these businesses are identified, what is the SBA doing to help them?**

The most helpful tool that SBA's Disaster Loan Servicing Center possesses to monitor distressed borrowers is our weekly Delinquency Report. This report system regularly accounts for all loans that are past due. From this list, our loan servicing personnel approach delinquency from a problem-solving point of view in either the orderly collection of past due payments, or the recommendation of actions that will provide necessary relief to borrowers in need.

The primary tools the Centers use to assist borrowers in distress are deferment of past due and upcoming payments; a reduction in monthly payment; an extension of maturity date; the agreement to subordinate in order to allow borrowers to use their collateral to provide effective relief; or, under extreme circumstances, a change in interest rate.

Deferments are the most common tool used to help borrowers recover from financial distress. These give borrowers breathing room from the repayment of their debt. For on-going financial issues, a temporary or permanent payment reduction can provide additional needed "breathing room" to allow a customer to recover. If a customer cannot make a lump-sum payment at the conclusion of their payments with SBA, a maturity date extension allows them to continue to make regular payments till the debt is satisfied. Subordinations allow borrowers to access available equity in collateral for various important purposes. In addition, the Centers have reduced interest rates for Customers under extreme hardship when none of the above remedies has helped the Customer recover.

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