THE STATE OF SMALL BUSINESS ACCESS TO CAPITAL AND CREDIT: THE VIEW FROM SECRETARY GEITHNER

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THE STATE OF SMALL BUSINESS ACCESS TO CAPITAL AND CREDIT: THE VIEW FROM SECRETARY GEITHNER

WEDNESDAY, JUNE 22, 2011

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

The Committee met, pursuant to call, at 10 a.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, King, Mulvaney, Tipton, Landry, Herrera Beutler, West, Ellmers, Walsh, Velázquez, Critz, Altmire, Clarke, Chu, Cicilline, Richmond, Peters, Owens.

Chairman GRAVES. We will bring this hearing to order. I would like to say good morning to everyone. I would also like to definitely welcome Secretary Geithner to the Committee. He is the first Secretary of the Treasury to testify before this Committee, and so we appreciate that. Obviously, we appreciate that very much.

More than two years after the President's inauguration, the economy still remains stagnant. Growth is anemic, unemployment hovers around nine percent, and that figure excludes those who have simply given up looking for a job. No Republican or Democrat can be satisfied with those results. However, every single member of this Committee truly believes in one thing—that any recovery will be led by the ingenuity and drive of America's entrepreneurs.

To accomplish that goal, small businesses need capital in order to purchase inventory and invest in plants and equipment and hire workers. America's entrepreneurs simply will be unable to revive the economy without access on reasonable terms to debt or equity capital.

There is little doubt that the environment for obtaining debt financing is difficult for small businesses. This Committee has heard on multiple occasions that entrepreneurs cannot get credit and small businesses face significant cuts to their existing lines of credit. Bankers have told this Committee that they have capital but are nervous about lending because the regulations might question the safety of the loans of those small businesses.

Nor can small businesses easily turn to equity markets. To do so they must navigate a complex series of federal and state regulations. Those businesses then face significant ongoing regulatory costs in order to comply with the securities laws, including Dodd-Frank and Sarbanes-Oxley. These are resources that could be better spent hiring new employees.

Today's hearing focuses on the efforts by the Department of the Treasury to improve small business access to credit through the State Small Business Credit Initiative and the Small Business Lending Fund. These programs are designed to bolster the capital available to community banks so that they can then lend to small businesses.

I did not support these initiatives and opposition came from both sides of the aisle. The opponents did not object to the worthy goals of this program; rather, they do not believe that the incentives provided will generate sufficient new lending to "small businesses" as that term is defined by the Small Business Act.

Despite my concerns about these programs, I want to do everything possible to help small businesses obtain needed capital. And with that in mind, I would like to hear from Secretary Geithner about the potential benefits of these two programs. I also want to know whether the Secretary believes changes to the programs might provide greater capital access to small businesses. Finally, I am sure that the Committee would like to hear any suggestions on improving the ability of small businesses to obtain equity capital.

I recognize that the programs have not been in full operation and the Secretary would be welcome to return and discuss these initiatives after the Department has had greater operational experience with those programs.

Before yielding to the Ranking Member for her opening statement, it is my understanding that the Secretary has obligations that are very vital to all members of this Committee and to Congress, which are going to require him to leave at noon. So as a result of that I am going to strictly enforce the five-minute rule.

And with that, now I will turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Good morning, Mr. Secretary. And welcome.

In early 2007, when the financial crisis began to emerge, no one could have predicted the economic damage that would follow. For small businesses, the capital markets dried up, leaving many unable to find lines of credit. To address this, actions were taken, many in fact led by the Small Business Committee. These measures were successful. Thanks to these policy changes, along with gradual although uneven economic improvement, small firms are now better able to secure capital than at any time since the heart of the crisis in 2008–2009. These more favorable credit conditions have been confirmed by both the Federal Reserve and the Thompson Reuters PayNet Small Business Lending Index.

The Fed reported that in net 15 percent of banks eased terms while the Thompson Reuters Index rose 17 percent in April from a year earlier. This represented the ninth straight double-digit rise in the index. Even the NFIB measures of credit conditions remains near a two year high. These are very positive developments since small firms have been all but locked out of capital markets for a long time. Unfortunately, while credit conditions have loosened for borrowers, we are not seeing corresponding increases in overall commercial lending. In fact, lending now is below the level reached in June 2006, declining by $15 billion in the most recent quarter. Totals of small business loans dropped 2.4 percent from 624 billion in December 2010 to 609 billion in March 2011. Small loans of less than $100,000 were down by 2.9 percent, while large loans outstanding declined by 2.2 percent.

From the broadest possible view, small businesses are getting less capital than they did five years ago. As demonstrated by the many hearings this Committee held in the last four years, the reasons behind this decline are complicated. However, we do know that banks are flushed with more cash than any other time in history. Banks are holding nearly $1.6 trillion in reserves at the Fed, of which only a small portion are required reserves. This is nearly double where they stood just two years ago when banks held only $900 billion at the Fed. Clearly, liquidity is not a problem for lenders.

With that in mind, today we will examine Treasury's SBLF program, an initiative designed to increase small business lending in one particular way—liquidity. Only 847 banks applied for 11.6 billion from the fund by its June 6th deadline. Less than half of the $30 billion was made available. If liquidity was a problem, there would be a line out the door for SBLF funds, rather than the lack of interest we are now seeing from lenders.

There are two areas in particular that I hope to review today. The SBLF's lack of requirement that its funds be used by banks to make small business loans undermines the supposed intent of the program. Instead, the SBLF relies on loose incentives and nonbinding plans to channel capital to small firms. I do not believe this is enough. You know that, Mr. Secretary. Throughout the debate that was an issue and concern that I raised. The problem is compounded by the initiative relying on an overly broad and vague definition of small businesses. So when banks do lend, it will be virtually impossible to know if they are lending to true small businesses or actually large corporations.

During the debate to pass the SBLF, the rationale most offered by its proponents was that we needed to quickly put a policy in place and that the SBLF could be implemented within six months. But here we are, more than nine months after passage and not one single investment has been made in the nine months since enactment. It could be several more months before any SBLF dollars made their way through banks and into the hands of entrepreneurs. All of these issues are as relevant today as they were when the legislation was considered.

And so with that, Mr. Chairman, I thank and I yield back.

Chairman GRAVES. Thank you very much. Secretary Geithner, your entire written testimony will be entered into the record. And you are now recognized to give your statement.

STATEMENT OF THE HONORABLE TIMOTHY F. GEITHNER, SECRETARY, UNITED STATES DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Thank you. Nice to be here. Mr. Chairman, Ranking Member Velázquez, and members of the Committee, it is good to come before you today to talk about this broader challenge.

You know, I know we have not always agreed on the best way to advance this objective of helping small businesses and we have had to make some compromises to get things done, but I know we all share that basic objective of looking for ways we can make it easier for small businesses to expand and to invest and to hire.

Now, as you both said, this financial crisis took a very heavy toll on small businesses and American workers. You know, in the month the President took office, job losses peaked at about $820,000. The recession ultimately claimed nearly nine million jobs.

Our efforts over the past two and a half years have helped restore economic growth. The President righted the ship, put out the fire, and we have now seen 15 straight months of private sector job growth. More than two million Americans have gone back to work over that period, one million within the last six months alone.

But of course, even as economic growth continues, we continue to face very substantial economic challenges. And in order to help strengthen this recovery, help get more Americans back to work, we need to continue to find ways to help small businesses. As you all know, half of the workforce of this country is employed by companies with fewer than 500 employees.

Now, the recession hit small businesses especially hard and that is for two reasons. The first is that it is because so much of the recession was concentrated in construction and small businesses, of course, are disproportionately concentrated in the construction and real estate areas. The second reason is because small banks, small businesses were most directly affected by the contraction in credit we saw across the financial system.

Small businesses are more dependent on bank loans than are large businesses, and therefore, they were more affected by the pressures we saw on small banks across the country. And they were more affected by the withdrawal of credit for loans backed by real estate. And of course, the broader contraction and credit card lending.

Now, in view of these challenges we worked with Congress over the past couple of years to run a series of programs. I want to describe briefly and summarize briefly the basic elements of that strategy. The first was to provide a significant amount of additional tax relief targeted at small businesses. We have supported 17 direct specific tax breaks for small business, many of them through the Recovery Act. Overall, these 17 specific tax breaks are estimated to save small businesses more than $50 billion over the 10 years over the classic budget window. And this means that the overall tax burden for small businesses is lower today than when the President took office.

We propose in the budget some additional long-term tax relief for small businesses which I will be happy to describe in more detail.

The second element of our strategy was to help small businesses get more access to capital, access to credit on more favorable terms. We are now implementing two public-private partnerships—the Small Business Lending Fund and the State Small Business Credit Initiative—which are designed to leverage government resources with the local knowledge of community banks and state credit programs. We have already approved 10 states for the State Credit Initiative, including the announcement today that Kansas will receive funding to spur more than $130 million in small business lending.

Now, these capital programs are one of the most cost effective ways we know that Congress can help encourage small business lending because every dollar of capital that Congress provides can be leveraged to support lending that is many multiples of the government's investment. And the bank capital programs that were at the center of the government's emergency programs that began under the last administration have demonstrated the effectiveness of this approach. We have seen these broad programs, capital investment banks yield a significant positive return to the taxpayer and they were decisive, of course, in bringing about the overall improvement in credit conditions that the Ranking Member referred to.

Now, as you know, in addition to these direct—these new types of credit programs, we have, with the help of this Committee, increased the SBA's 7(a) and 504 loan guarantee programs and permanently increased SBA loan limits. The Community Development Financial Institutions Fund continues to be a critical source for capital to reach underserved communities through a variety of programs, including the New Market Tax Credit Program and through the Start-Up America Initiative and other efforts we are looking at ways to reduce barriers to equity capital and the chairman referred to this. It is just so important for start-ups and other high growth, innovative small businesses.

The third piece of our strategy is about regulatory reform. The President has directed Cass Sunstein at OMB to lead a government-wide review of existing regulations so that we can eliminate or fix rules that are outdated and unjustifiably costly and to make sure that new regulations undergo a more rigorous process of review. And of course, as part of this effort we are going to take a close look at how we can remove unnecessary barriers and burdens to small businesses.

The fourth piece of our strategy is about federal contracting opportunities for small business, which we are committed to work to expand. We are very pleased that a third of the Recovery Act dollars went to small businesses. We want to look for ways to do more. And finally, we are looking at ways to improve export opportunities for small businesses. As part of the President's broad National Export Initiative, we placed a high priority on helping small businesses access foreign markets. My testimony lays out in more detail the scope of those programs.

Now, these initiatives, these programs we believe are very important to continue to help small businesses expand, hire, and invest. We have got a lot of challenges ahead. And I want to just end by saying that it is very important that as we work towards a bipartisan, comprehensive agreement to reduce our long-term deficits, we make sure that we reach agreement on a program that is good for the economy, that does not endanger the recovery, and it helps make sure that we can retain and remain competitive in the long run. If we meet that test, then we can help small businesses thrive as we recover.

Thank you.

[The statement of Mr. Geithner follows on page 39.]

Chairman GRAVES. Thank you, Mr. Secretary.

And I will start with questions. And I ask that if other members have opening statements, please submit them for the record so we can get the majority of our questions in.

And basically my question is fairly simple and I am just looking for reasons why we cannot—we seem to have a gap here. We hear in testimony every single week from bankers that come in here and they tell us they have got money to lend. With the fact that I point out and the Ranking Member pointed out, too, even with the Small Business Lending Fund that we have only seen a portion or at least a few banks applied for it. But banks say they have money to lend and yet we have small businesses come in here every single week also and tell us they cannot get capital. We are trying to find a reason for that. Do you have any ideas, thoughts? What is causing the problem here or this divide that nobody seems to be able to cross?

Secretary GEITHNER. Well, Mr. Chairman, that is the right question. And I will give you my sense. And of course, you know, like you, I talked to small businesses across the country all the time and I hear the same things. People still say it is very hard to get credit. We think we deserve it. We should be able to have access to it. Banks were throwing money at us before the crisis and now it has dried up. We think that is unfair. It is hurting our capacity to expand. Many of them say, you know, we are just on the verge of being able to—we are seeing more demand for our products. We would like to meet that demand but we cannot do it unless we have more working capital. So I think you are absolutely right about the nature of the problem.

And I think the way to explain why it still feels that bad is just to remind people that the crisis caused a huge amount of damage. It is going to take years for us to dig our way out of that hole. A lot of the damage was concentrated in construction where a lot of small businesses operate. And the credit damage caused by the crisis hurt a lot of small banks' capacity to lend and hurt a lot of the classic lending channels that small businesses rely on. So I think those are the best explanations for why it still feels so bad.

It is fair to acknowledge that, you know, examiners across our banking industries, state and federal, are trying to be more careful. You know, they look back at the experience or the judgments they made on the run-up to the crisis. They felt they were behind the curve in lots of ways. And they are being very careful. Now, maybe too careful in some ways. The typical thing you see in recessions, coming out of recessions caused by financial crises is that there is a risk that supervising examiners overreact. And after a period of maybe being a little too loose they tend to overdo it.

And so I think it is very important as we try to make sure these programs reach as many people as we can, that the federal banking agencies continue to try to give their examiners more balanced guidance so again they do not make these problems unnecessarily worse by overdoing it. They should be cautious. They should be careful. But they do not need to overdo it.

Chairman GRAVES. We hear some of exactly what you said when it comes to the examiners. They are either requiring more equity for the same line of credit on a business that has never missed a payment or they are lowering their line of credit, with the same equity—the reverse.

Do you think that small businesses out there are, one of the things that I worry about, too, just sitting on cash that they may have? And do you think that the concern over the deficit or the concern over the debt is hampering that growth or do you think that small businesses are holding back just as a result of that alone?

Secretary GEITHNER. I think it is a good question. You know, we have a bunch of surveys that some of you cited that we use as a measure of what small businesses say their main challenges are. And I think those surveys have consistently said throughout the crisis that the biggest challenge they face, the biggest source of uncertainty is over how much growth and demand for their products they are going to see. And although we have had now about 18 months of positive growth, because the crisis was so traumatic and caused so much uncertainty, so much damage, you know, this is something that most Americans had never experienced before in their lifetime, never thought they would experience. And that has lasting damage to confidence. And people are a little more tentative of giving the shocks caused by the crisis about how strong it is going to be in the future. That seems to be the main effect.

However, having said that, I agree very much that if Congress can find a way to reach a bipartisan, comprehensive, balanced agreement to bring down the long-term deficits that that would help. It would be a sign that Washington works, is able to try to come together and solve some problems. And I think that would improve overall confidence across the country. Of course, how we do that is very important. As I said at the end, it is important not just to bring more gravity to our fiscal position, demonstrate that we can live within our means, but we have to do that in a way that is going to be good for growth, good for the economy in the near term and good for the economy in the long run. And that is a complicated challenge.

Chairman GRAVES. I have a lot more questions. I am going to defer to the Ranking member because I want to make sure that our other members have the opportunity to ask and I will ask at the end if we still have time.

Ranking member.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Secretary, I would like to discuss the SBLF program. The focus of it basically was liquidity to address the issue of the lack of liquidity. Given the fact that only less than 10 percent of the banks who qualify for these funds have applied, why is it that more lenders are not applying?

Secretary GEITHNER. It is a good question. And I should say that, you know, you referred to our debates and discussions about how best to solve this problem. And I very much respect not just your record of accomplishment on these issues. I know you have had somewhat different views than us and I respect those views, so I will give you my sense.

We have had about roughly almost 850 banks apply. I think that is a pretty good, reasonable number of banks. I think it suggests a fair amount of interest, although you said, you know, we are a country with 9,000 banks, 8,000 banks. So it is not a large fraction of banks. But it is a pretty substantial number. And not all of them will qualify. And you are right to say you cannot be certain what you are going to see in terms of the term on those investments. But we think it will be positive.

Ms. VELÁZQUEZ. You do not think that is because of the TARP stigma?

Secretary GEITHNER. I think that, and you are right to recognize that, you know, we have done this in three stages, these broad approaches to credit. We are experimenting a bit. And what we found in the first stage of TARP, as you know, is we saw hundreds of banks withdraw their applications for the program because they were worried about the stigma. And they were worried that if they came and took capital from the government that they would be penalized in the eyes of their competitors and their creditors and their customers. And so they withdrew in waves. And therefore, that instrument was not as powerful as we thought it would be for small banks. That is partly why we tried to design a complimentary program that had less stigma.

Ms. VELÁZQUEZ. Another reason could be that banks are sitting on a record amount of cash.

Secretary GEITHNER. Well, I think you are right to say if you look across the banking system, the banks today have much more capital than they did before the crisis. And you are seeing them—they are not facing much loan demand yet, and a little tentative to use that in some cases, but what this program tries to do is reach a subset of the banking system that cannot raise capital on their own but are still viable institutions. That is not going to be the bulk of banks but it is going to be a meaningful fraction of banks.

Ms. VELÁZQUEZ. What will Treasury do with the excess funds that will not be used for the SBLF?

Secretary GEITHNER. That is a judgment only Congress can make. We have no authority to use the funds once we run out of time and once we reach the ones we think are eligible.

Ms. VELÁZQUEZ. So if you do not use it because banks will not apply, will you recommend to Congress to rescind the funds?

Secretary GEITHNER. You know what, I have not really thought about it yet. We have been focused on trying to get this moving but I would be happy to talk to you about what the best use of the remaining authority is.

Ms. VELÁZQUEZ. Well, you heard the Chairman and in my opening statement I also make reference to the fact that time and again, businesses are coming here telling us that they are having—and these are creditworthy companies—and still are not getting any affordable capital. So do you think, do you expect that the SBLF fund will change this trend?

Secretary GEITHNER. Well, I think it is going to make a meaningful difference for the banks that qualify and are eligible. And it will make a meaningful difference for their customers. Because, again, you know, the central feature of this program is that you get a dollar of capital and that means that you have between eight and 12 additional dollars of lending capacity. If you are short capital, it is less likely you have to cut your lending to your credit lines to your customers by that magnitude. If you have ample demand for loans and capital then you can leverage that money substantially. So it will make a meaningful difference for the banks that apply and a meaningful difference to their customers. And in a very efficient way for the Congress. I think one of the most efficient ways we have to use the taxpayers' money to try to incent investment and hiring.

Ms. VELÁZQUEZ. On a scale of one to 10, one having no effect, 10 satisfying the capital needs of small businesses, at the end of the day how do you qualify the SBLF fund will lend? On a scale of one to 10.

Secretary GEITHNER. Well, I think I will repeat what I said. It will make a meaningful contribution. We are a $14 trillion economy. We have 8,000 banks. We have had 850 roughly apply. The total capital that they have applied for is about $12 billion in authority. So it is meaningful for those who are eligible, meaningful for their customers, but of course, you are right to say we are a large economy.

Ms. VELÁZQUEZ. Mr. Secretary, throughout my discussion with Treasury staff I was told that the program will be up and running in six months. And I am quite disappointed that still not a single money has been disbursed to a small company, a small firm. When will the first small business actually see this money?

Secretary GEITHNER. Very soon. But thank you for asking that question again that you said in your opening remarks. And let me explain to you why we are here. Because we are a little disappointed, too, and a little surprised. It has been a little slower than we thought. Let me explain why. In the program Congress legislated, there are very strong protections to protect the taxpayer as you would expect. Very important that those exist.

And in our system we rely on two safeguards for that. One is we require the applications to be reviewed by their primary bank supervisor. And we do not consider them unless they get recommended by the bank supervisor. That program leaves us vulnerable to the time it takes those regulators to be careful in a review. But also we have to look independently of them and we are trying to be careful. So we are a little slower than we thought but we are very close to moving ahead. And again, I am very confident you are going to see a very meaningful impact on the institutions that are eligible and we are close to being able to unleash that capital.

Ms. VELÁZQUEZ. I have many more questions but in light of— what guarantees are we going to have that community banks or the banks, financial institutions that will get these funds, will provide small business loans?

Secretary GEITHNER. Well, you know this debate as well as anybody. We do not have the capacity and the program does not give us the ability to force banks to lend. We do not think we can do that. What we did is something different. We created a program structured to provide very powerful incentives for them to lend. But you said they are incentives. They are not guarantees. They are not compulsory. But if a bank does not lend above the baseline of lending that proceeded the enactment of the law, then they have to pay a higher dividend. So their incentives are pretty strong. But you are right to point out that we do not have the power to compel.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Chairman GRAVES. Ms. Herrera Beutler.

Ms. HERRERA BEUTLER. Thank you, Mr. Chair. Thank you, Mr. Secretary.

I am going to follow along the same lines of the Small Business Lending Fund. I have some real concerns. I mean, I have had—whether it has been small businesses who have said, hey, look, this is one of the only games in town or I have had several community banks and credit unions, creditworthy, right? I had a bank fail in my largest county so I am learning the difference here. We are talking about creditworthy, financial institutions who have come in and said can you help us with Treasury? We cannot get a response. That was in my first couple of months here. As it has drug on, we are now at six months plus. And as we communicate with Treasury we get told we hope so. So when I filter through kind of the answer I heard you give the Ranking Member, it had to do with, you know, getting approval through a primary bank supervisor and then an independent review, correct me. I was not here so please do correct me if I am wrong. But I thought the whole purpose of getting this small bit of cash infusion to those small community banks to get out to small businesses in a short term was the goal. What is happening with the money? And can you give us a time guarantee? Because it should not take this long.

Secretary GEITHNER. Well, I wish it were otherwise but we are doing what I think you would want us to do and you would expect us to do, and you would hold us accountable for, which is we are being careful with the taxpayers' money. If you think about the U.S. banking system today and community banks today, they fall roughly into three categories. There are banks that are very strong and were very careful. Can go raise capital and therefore can expand their customers on their own. They have no interest in coming to the government for help.

There are a lot of other banks who got themselves way underwater, lent too much to commercial real estate or in sectors affected by the crisis, innocent victims of the recession who may not survive. Do not have enough capital and we cannot justify helping keep them alive.

Ms. HERRERA BEUTLER. Yeah. And——

Secretary GEITHNER. But then there are banks in the middle who this program can help that are viable, cannot raise capital on their own because those markets are still much more tentative about lending to banks given the crisis. But we think there is a good way, responsible way to reach those banks. But they will not protect banks from failing, a lot of banks from failing. And there are a lot of banks that would like this capital that will not be eligible.

I wish it were different, but the reason why we are a little behind schedule is because we are being careful and because the regulators are being careful. And that is what you want us to be.

Ms. HERRERA BEUTLER. With that, I think you are right. There are going to be banks who are still teetering. Right? And Washington State has had—were fourth or fifth, I think, in terms of bank closures. But again, I am not talking about—and we had Washington Mutual. I am talking about a big bank that made a lot of these risky loans. Right? Got into the subprime market. I am talking about community institutions. Heritage Bank in Olympia. IQ Credit Union in Vancouver. I am talking about financial institutions who have weathered this, continued to weather this well and cannot get a response from Treasury.

Secretary GEITHNER. Well, again, we will be as responsive as we can and we will be as clear with people about if they do not meet the test, the regulators' test or our test, we will make sure they get a response. But just a little context without commenting on the specific banks you mentioned. You are right to say that in general this was a crisis not caused by small banks. But it is also true that if you look at small banks across the country running up to this crisis, a very substantial number of those banks got themselves very, very exposed to commercial real estate as a share of capital. Therefore, very, very vulnerable.

Ms. HERRERA BEUTLER. Absolutely.

Secretary GEITHNER. It is hard for any of us—any of you really or even me in this context, to know——

Ms. HERRERA BEUTLER. Let me reclaim my time really quickly because I recognize there are a lot of banks who got out over the tip of their skis. That is not what I am talking about. I am talking about creditworthy institutions who cannot get a response from Treasury, from your office.

Secretary GEITHNER. But you——

Ms. HERRERA BEUTLER. Let me finish. From your office on whether or not they are approved or not approved. And we are talking six months.

Secretary GEITHNER. No, they will get that response. But again, the reason why people have not heard from us yet is because we depend on the regulators to review these applications. We do not even see them until they meet that review. When they see them, we look at them. And we will make those judgments as quickly as we can. But again, none of you, I hate to say it, will be in a position to make a judgment independently on your own about whether they are viable or not. That is a judgment that you need to leave to and the law is designed this way. Leave to the checks and balances we set up.

Ms. HERRERA BEUTLER. Let me, the last couple of seconds, well, then, if this turns out that of the banks that maybe we cannot judge as creditworthy or the credit unions, institutions, do not meet your criteria, is that money going to then be returned? What happens to that money if we are not lending it and it is not getting to small businesses?

Secretary GEITHNER. The way the law of the land works, if there is money leftover, meaning there is not eligible institutions come on a scale to use all that money, then that money is left to the Congress to choose what it wishes to do with that. It cannot be used—we cannot use it. And you can make your own judgments. And this Committee should take a look at that. What would be a better use of those funds?

Ms. HERRERA BEUTLER. I yield back. Thank you.

Chairman GRAVES. The gentleman from Pennsylvania, Mr. Altmire.

Mr. ALTMIRE. Thank you, Mr. Secretary, for being here. And when we confirmed your appearance here I went back to my district and talked with some key small business owners and asked them what they would like for me to ask you given the opportunity.

And universally, businesses in my district are saying that lenders are focused primarily on real estate—and you addressed this in your testimony. Real estate loans—rather than on providing the working capital that will enable small firms to rehire the people they have had to lay off and expand their operations and their employment, which has led lenders to state that there is no demand. And businesses are claiming there is no supply, the push and pull that you described earlier.

So how can the Treasury ensure that businesses are getting the loans that they need in that climate?

Secretary GEITHNER. Cannot ensure. You know, we can help but we cannot ensure. And you have not given us the authority or the power to ensure. And I do not think you could. All we can do is through this mix of things. And it is a very substantial mix of programs we put in place. The SBA guarantees the capital programs, the tax incentives, that we are doing as much as we can to help them dig their way out of this as quickly as possible. But we cannot ensure.

And, you know, countries facing these challenges over the decades have tried all sorts of different ways to get capital directly to companies who need businesses. And those programs are littered with failure and waste and distortion and politics. It is not a record you want us to emulate. And because of that we are left with the tools that we have which are to try to work through banks, use the knowledge banks have about who is creditworthy, who is not. Not to make those judgments independently but try to make it economically, more economically attractive for them to lend.

Mr. ALTMIRE. Right. And for many lenders, when making a determination of creditworthiness, the discussion we were having earlier, they look at the past year or two. Obviously, that was not a good time in the economy and it is difficult for any business to have shown a profit in that time period. And the Fed, Federal Reserve has encouraged lending to creditworthy businesses to aid the recovery. But to date the Fed has yet to define what creditworthy means. So the uncertainty further compounds the lenders' fears that regulators will penalize them for making loans that will later be found to have been made to non-creditworthy businesses.

So what guidance can the Treasury offer or have you offered to help define what creditworthy means? And do Treasury's lending initiatives allow for a longer term review beyond the two years for a business's finances?

Secretary GEITHNER. We cannot really make that judgment for the regulators or their banks. Not something we can do. But the programs we set up do not—would still give the primary regulators the discretion to make a judgment about whether banks are looking at credit risk in a more balanced, reasonable way. And you are right to say that when you have a crisis like this, you know, this is something that could have been a second grade depression. And you saw a huge amount of business failure, a huge loss of wealth, huge trauma to the American economy. It has made everybody too tentative. A little too tentative, too cautious. And I think a real challenge we all face is to try to make sure people look forward and look at the earnings capacity of these businesses, recognizing that we will be coming out of this over time and you want to make sure they give as much weight to the future as they give to the recent past.

Mr. ALTMIRE. Right. And lastly, Mr. Secretary, in Western Pennsylvania, venture capital. Something I hear a lot about and access has been an issue recently. And it has proven to be a critical driver in producing the high-tech, high-growth jobs and new businesses can create jobs that would fuel the economy in the way that we all hope to see. Do you think that more of a focus should have been put on retrospect on this type of equity investment rather than solely on debt financing?

Secretary GEITHNER. It is a good question. I think you are right to say that, you know, one of the great strengths of the American financial system before the crisis was we were really better than any country in the world at helping small businesses get access to equity capital and debt capital, early stage. And we have got to make sure we are recreating that fundamental strength of our system.

And you are right that angel investments and early stage equity investments are very important to innovate companies. And we are looking at a range of ways to help that.

On the credit side though, our judgment was we have to work really with the knowledge of community banks; not try to independently make judgments of which companies are creditworthy, which ones they are not.

But we think there are some other things we can do on the equity side, and we are working closely with the SEC and the SBA and others in that direction. I will be happy to talk to your colleagues about how best to do that.

Thank you.

Mr. ALTMIRE. Thank you. Thank you for being with us today.

Chairman GRAVES. The gentleman from Florida, Mr. West.

Mr. WEST. Thank you, Mr. Chairman and Secretary Geithner. Great to see you here today.

Last week, Friday, I had the opportunity to speak to the Greater Fort Lauderdale Chamber of Commerce. And of course, there were a lot of local community bankers that were there. And again, the reoccurring theme always seems to be, you know, we want to provide that access to capital but we are seeing an increase in regulation. We are seeing more examiners coming down. They really do not understand things going on here on the ground and that relationship. In the six short months that I spent here I have learned that in Washington, D.C., if it is worth reacting to, it is worth overreacting to.

So I am just wondering, is anyone at the Treasury going back maybe now and looking at the Dodd-Frank law and looking at maybe the potential negative impacts that we could find on small businesses and those community banks? The large banks have these huge staffs. They can take care of these things, but the small banks and that relationship with small business, is it a possibility we can go back and review Dodd-Frank?

Secretary GEITHNER. Well, I want to, I think, you are raising a really important question. And I agree that the main challenge in thinking about regulation is how to get the balance right. It is obvious looking back at the financial crisis, we got a whole bunch of things wrong as a country and how much oversight we put over the banking system. And we have to fix that. And that is what Dodd-Frank was designed to do. But we have to be careful we do not overdo it. I completely agree with you.

I do not believe that—well, let me say it affirmatively. I think Dodd-Frank was very carefully designed to make sure that small businesses were not the object of a huge increase in regulation or meaningful increase in regulation. In fact——

Mr. WEST. But there is a little collateral damage that has happened.

Secretary GEITHNER. Well, it is a good question I think that they were largely protected, insulated from the core provisions of the act. The act was really designed at the big failures by large institutions and markets and that is why I just want to read you this quote from Cam Fine when the bill was passed. Cam Fine, as you know, chairs the Independent Community Bankers Association. He said that Dodd-Frank recognizes the two distinct sectors in the financial services sector, Main Street community banks and Wall Street Meta Banks. Broadly supportive of the act. Does not agree with everything in it but it recognizes the efforts of many people on the hill to make sure that small banks were not subject to an unfair and unnecessary burden as we try to fix the big failures in the system.

But I agree with you that we want to be very careful that we do not overdo it. And I think that the bigger challenge, I think, apart from just the uncertainty facing banks and businesses across the country is that I think examiners, there is just some natural tendency. These are human beings. They want to make sure they are earning this out of caution now and we want to make sure they do not overcorrect.

Mr. WEST. Well, but I think that as we go forward, let us just make sure, as you just said, that sweet spot, kind of like on a baseball bat, we need to find that right position as far as this regulation.

The next question I had is when we look at the Small Business Lending Fund, and you just talked about how many thousands of banks we have out there, but how many are looking toward using this fund? We really have a bottom-up process by going out, talking to the SBA, talking to some small business leaders, community banks, as far as what would you like to see us tailor this fund to be so that it could be a bottom-up process and maybe not a top-down driven process?

Secretary GEITHNER. Very good question. You know, it took nine months for Congress to react to the initial proposal we made and reshape them and ultimately legislate them. Nine months is a long time with a country facing this degree of challenge in the financial sector. And during those nine months, not just we but your predecessors and other people on the Committee spent a lot of time talking to states with experience in these programs to community banks and businesses about what would be the most powerful set of packages. And I am sure we did not get it perfect but what we all tried to do was take the best mix of things that would command the most support up here and, you know, we are trying a lot of different things.

You know, Roosevelt said in the Great Depression, he said, you know, if I am not mistaken what the country needs is bold experimentation. And we are experimenting with the best mix of things we think will help mitigate it. It is not going to make it easy for everybody caught up in this mess, but we thought we were taking the best mix of ideas that could command the most support up here.

Mr. WEST. Okay. The last thing I will say is from a lot of people down in South Florida where we still have some double digit unemployment and incredible foreclosure problems, please remember that small businesses operate as S corporations from personal income tax rates when you start talking about raising taxes.

Thank you very much. I yield back.

Secretary GEITHNER. I absolutely will remember that. And you are making a good point.

Chairman GRAVES. The gentleman from Rhode Island, Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being with us today.

I have a small business jobs and economy roundtable in my state and my district. And when I talk to small business owners in that setting they reaffirm how important capital is, the lifeblood of small business, as you have said already. In Rhode Island, where our economy has been particularly hard hit, small businesses, many of our small businesses do not have a strong balance sheet. They may be underwater in a building that they are in or in their own home and they may have impaired credit scores because of credit card debt that they have taken to keep their business running and keep their businesses open. And so with all those factors in play, even with an SBA guarantee getting a capital infusion can become—may be still very, very difficult for some small businesses in Rhode Island.

So when I spoke recently with the president of Coastway Community Bank, which is my state's largest dollar lender of SBA loans, I was very surprised to learn that his institution is not planning to take advantage of the Small Business Loan Fund. Coastway is a mutual institution and according to the documents that I have had the opportunity to review from Treasury, mutuals cannot issue preferred stock to Treasury without changing their tax elections, so Treasury will not offer mutuals tier one capital. And so here we have instances where we have a lender who really is an experienced lender that could have borrowed $10 million from Treasury and leveraged that between $100 and $150 million in small business loans, but instead, because of this complication, they are really forced to remain on the sidelines and not participate.

And so my question is what could we do now at this stage in the SBLF program to engage these mutual institutions in this program. We know, as you said, 844 banks have submitted applications seeking $11.6 billion, so there is $18 billion remaining. And if this distinction between tier one and tier two capital is keeping these really good, tried and tested and secure and successful banks like Coastway in Rhode Island on the sidelines, what can we do? What can Treasury do now to get them in this game to really get that capital out in places like Rhode Island and in places like my congressional district.

Secretary GEITHNER. I am not sure we have a solution to this problem, just to be honest. But we will be happy to talk to you in more detail and to your staff about it. But let me explain the way—the nature of this constraint.

Under the system we have today, it is the banking regulators that determine what counts as capital. And in their judgment, for those types of institutions, they are not willing—I want to say this carefully—to count as capital the capital Congress made available to this program. And that gives us a problem. And what it does mean is that this has limited benefit for certain types of institutions that are structured in that form. But I would be happy to talk to you and your staff in more detail about it and see if there is anything we can do about this. I am not sure there is.

Mr. CICILLINE. I mean, it just strikes me that some of these community banks which are best positioned to do this work and have the pre-existing relationship with small businesses are in the best position to do this kind of lending and they are prohibited, which——

Secretary GEITHNER. Yeah. I completely understand. The whole program is designed to take advantage of the knowledge community banks have about who is creditworthy and, you know, it has got very good leverage in it because of the public-private partnership. But we have got this problem, which is that bank regulators do not want to or do not feel they can count as capital, tier one capital, this type of capital investment for those types of institutions. And I am sure they would be happy to explain to you why they came to that judgment, and we would be happy to be a part of that.

Mr. CICILLINE. Terrific. Thank you. I yield back the balance of my time.

Chairman GRAVES. The gentleman from Colorado, Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman. Mr. Secretary, thank you for joining us here today.

I would like to go back actually to your opening comment when you stated that the President had righted the ship. And frankly, I have to tell you in the Third District of Colorado, we have not seen the ship righted. We see unemployment at 9.1 percent. If you go through the Third Congressional District of Colorado, we have better than double digit unemployment in many of our communities right now. We are seeing great frustration in terms of the marketplace. Access to capital, I am a small businessman. And let me tell you the problems that I see and my counterparts are really seeing right now. It is actually uncertainty. You can provide the access to capital, but if we do not have sales it does not work. We have to be able to get this economy moving and the uncertainty that we are seeing, frankly, coming out of the administration is greatly impacting a lot of business decisions right now.

When I read through your entire statement last night, you were talking about government-run health care providing certainty. It has created uncertainty for a lot of small businesses that are out there. When we are talking about the tax code that Mr. West had referred to as well, you and the President have stated that if you earn $250,000 or more in this country you are wealthy. I would invite you to come to Colorado with me, sit down with small businesses, LLCs that are working. They do not feel that they are rich because in the case of my business, and believe me, for the last few years we have not had to worry about making those types of profits. We reinvest those back into our business to be able to keep our people employed. We are facing higher gas prices in this country. So in the entire scope of things that we are looking at right now, when we are talking about access to capital and we are doing everything we can to state, to go to your comments, to make sure that we are preserving and standing up for the American taxpayer, I guess I would like to know when we look back on TARP and ERA, did the government actually stand up for the American taxpayer?

Secretary GEITHNER. In TARP?

Mr. TIPTON. Yes.

Secretary GEITHNER. Let me come back to where you started because you are absolutely right that unemployment nationally is roughly nine percent but that does not capture much higher unemployment rates in many parts of the country. And you are absolutely right that this is still a very tough economy and we have got a long way to go to dig out of and repair the damage caused by the crisis. So I do not disagree with you on that. And I absolutely agree that, again, small businesses in many parts of the country, parts where unemployment is very high or businesses that were in construction and real estate are still showing the deep scars caused by the crisis. The question is what can we do to help make that better.

Now, you referred to a tax question. I just want to make sure I respond to that because I know that is a broad concern. Let me explain to you what our view is about that particular question. What we proposed is to allow the tax rates that affect individuals and businesses that pay taxes as pass-throughs, who make more than $250,000, to have those rates revert to the level they were at the end of the Clinton administration. And we do not do that because we think that we want to do it in particular; we do it because we have huge fiscal challenges as a country and we have to figure out a way to dig out of that mess. And we think the best way to do that for the economy is through a broader balanced approach with savings matched by some modest changes in revenues.

Now, you are right that that will change the tax treatment of small businesses but only roughly three percent of small businesses. And we think that is a reasonable strategy given the broad challenges we face. And we are just restoring to the rates that prevailed at the end of the Clinton administration, which was a period of very good small business performance, very strong investment growth, very small income growth, very strong employment growth, very strong productivity growth. And we think the economy can handle it. And, you know, it is about alternatives. If we do not do that, you know, if we extend those tax rates for the top two percent, then we have to go out and borrow $700 billion over the next 10 years. We cannot afford to do that and that is why we proposed that.

Mr. TIPTON. Well, I understand that. I just might throw out the suggestion if we get people back to work we are creating new taxpayers. And one way I can assure you that we will not be getting people back to work is you can dismiss only three percent. Those are job creators, people that are creating jobs, and we have got struggling people right now that cannot meet those mortgages.

But if we go back a little bit to some of the issues that we are really seeing on the banking end of the world, Colorado Bankers Association notes that we are going to have 25,000 pages potentially of new regulations coming out of Dodd-Frank. These are going to impact it. And when we look through the five Cs in terms of making those actual loans to small businesses in this country, banks want to be able to loan this money but the regulators, regulations again are coming into play, choking off the American economy and our ability to be able to create jobs.

Secretary GEITHNER. I do not agree with that. Let me explain a little bit why I think it is a fair approach to thinking about that. And as I said, again, it is very important we get this balance right. And there is no perfect way to get that balance right. But remember, look back at what happened given the basic failures of oversight in our financial system. It caused a huge amount of damage to small businesses. They were the innocent victims in many ways of the big mistakes in design of regulation, checks and balances of our financial system. It was catastrophic. So we have to figure out a way to fix that mess. And those regulations are overwhelmingly targeted. Not at small banks; at the large institutions, the derivatives markets, the complex aspects of our financial system where most of the trauma was. And these are complicated problems and they require complicated solutions. But the law was designed very carefully because of the efforts of many of the people in this body to make sure that those burdens did not fall on small banks. And we have got to make sure we have a system that provides more stability, more stability and access to credit, and that is what those rules are designed to do. But of course, you are right to say we have got to be careful to get the balance right and not overdo it.

Chairman GRAVES. The gentlelady from California, Ms. Chu.

Ms. CHU. Last year, the Congressional Asian-Pacific Caucus and the Congressional Black Caucus teamed up to offer an amendment to the Small Business Lending Fund legislation that would make sure culturally and linguistically appropriate services are part of the financial institution's lending plan where appropriate. And of course, we did this to ensure that there is greater success for the program and that the funds go where they are needed. What criteria have you set up to decide whether or not businesses will have to institute culturally and linguistically appropriate lending plans?

Secretary GEITHNER. Congresswoman, I am going to have to consult with my staff and come back to you in writing with a more detailed response to that. But I know the provision you are referring to. The objective is something we share. I think it is very important. We have worked very hard to do much more extensive outreach across the country to make sure people are aware of these programs and can take advantage of them. We are committed to continuing that and we are happy to work with you on how best to do that. And I will be happy to report on the detail and exactly what we are doing with that provision.

Ms. CHU. I would appreciate that. I am also very interested in the establishment of the Office of Minority and Women Inclusion at Treasury and at the other federal financial regulatory agencies.

Minority communities face many cultural and linguistic barriers that are often tackled by community-based organizations or CBOs. The CBOs are the link to these communities that often do not know about federal government programs or understand how to navigate the federal process. It is important that this new Office of Minority and Women Affairs overcome these barriers, and without significant expertise in community affairs in the office, we are concerned about the effectiveness of the outreach program. Can you give me a status update on the Office of Minority and Women Inclusion offices in the Department of Treasury?

Secretary GEITHNER. Absolutely. And I think you are right to point out the challenge and you are right to say it requires people in these jobs who have a better feel for what is happening in those communities. And as I think you know, we appointed Dr. Lorraine Cole to take this job at Treasury in February of this year. She is excellent, great record of accomplishment in this area. And if you have not had a chance, I think you should spend some time with her and she will be happy to give you an update on exactly where she is, what she is doing, where the opportunities are, where the challenges are.

Ms. CHU. To what extent has this office been active in reaching out to minority-owned banks or banks where there is a high concentration of minority businesses so that they can promote the Small Business Lending Fund?

Secretary GEITHNER. Well, the entire council and people at Treasury responsible for these programs have been doing a huge amount of outreach to small banks across the country. And she will play a meaningful role in that. But that is a broader department-wide priority. It is not just a burden we place on her.

Ms. CHU. Okay. Switching topics, let me ask about the State Small Business Credit Initiative. This is a program that is building upon successful models of state small business programs. And I know California received $169 million through this program. How successful has this program been in increasing lending to small businesses in California?

Secretary GEITHNER. Well, I think to be fair it is a little too early to tell. But again, the basic rationale for this program is you had across the country a lot of state programs with a pretty good record of creative, innovative ways to help small business get credit. And we made the judgment with Congress that as a complement to what we did directly with banks using their expertise, we take advantage of these credit programs, and California is one example of that. But we have now approved 10 states for funds through this program. We have other applications coming. We expect to reach a bunch more, but it is going to take us a little bit more time to judge the actual results.

Ms. CHU. Why are not more states applying for these funds?

Secretary GEITHNER. Well, as I said, we have had 27 apply. We have had many more express interest. And, you know, we leave that judgment to them. Many of them may have felt that they did not need the additional assistance. Or many may have felt that they could not match their programs to the requirements in the law. It is hard to know. But we think we will reach a significant number of states.

Ms. CHU. Thank you. I yield back.

Chairman GRAVES. The gentleman from Illinois, Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman. Mr. Secretary, thank you for being with us today. I know you have got a busy schedule.

I can guarantee you of very few things in life, but I can guarantee you—I wish I could guarantee you of more—but I can guarantee you that if you and I took a day and we spent the afternoon in my Eighth District of Illinois and we randomly, just randomly knocked on the doors of 30, 40, 50, 20 small businessmen and women in my district, I can guarantee you they would all say the same thing. The uncertainty is killing them. They see their government pass a piece of health care legislation that their government does not even seem to know what it will cost. How are they expected to factor it in? They are feeling overregulated. And they are feeling—there is huge trepidation about regulations they see coming down the pike. I can guarantee you if you and I knocked in my district on the doors of five small and community banks, or 10, they would all say the same thing. Government regulations are tying our hands. That is why we are not able to lend.

I love listening to you. I always learn something when I listen to you. But is it at all possible that all of those business men and women in my district and those bankers, are they all misguided when they say they are overregulated, they are scared, there is uncertainty? And everything, and again let me just be pointed here as I close, everything they see coming out of this administration adds to their uncertainty and their fear. To all of them.

Secretary GEITHNER. I do not—I think I have a slightly different perspective. I will tell you my view. Absolutely, businesses, small businesses are more uncertain about the future than they would have if you asked them the question in 2005. Absolutely. And the biggest concern they have and the one they talk about the most, and this is what all the surveys say. Not our surveys. They say their uncertainty is about how much demand for their products is going to grow. They put that at the top of the list. That has been true for years now and that makes sense. It is sort of a natural thing because they are not going to invest or hire unless they have more confidence what rate of growth and demand for their products is going to be. And even though we have had 18 months of growth, people understandably, given the pressure you are seeing in the economy today, gas prices, weather, Japan, a little concern about Europe, you see a few more headwinds now. So that is understandable.

Now, it is also true that businesses always want less regulation. Understandable. And banks would like to operate with less regulation. There is nothing unique in that.

Mr. WALSH. No, but understandable, but is it correct?

Secretary GEITHNER. Well, I think what is correct is that we have to be very careful given the trauma caused by the financial crisis to make sure that we have a financial system that is more conservatively managed. And I do not believe there is really a meaningful risk for small banks that Dodd-Frank itself is going to add to their regulatory burden. I think there is some risk, as I said, that examiners are going to do it a bit. Maybe a little too cautious, tighten up a bit. And that is something that I think the chairman of the Fed, the chairman of the FDIC, other bank regulators, are trying to lean against carefully so there is more balance in that.

But where there is concern about people over on the regulatory side, we will take a careful look at that. But that is the way I would see it. And you know, I have not spent any time in your district but I spend a lot of time talking to people and they say similar things. They say banks say we are not lending because we are regulators, which they often say. And we see businesses that were more uncertain. And I do not think that is surprising given what this country has just been through.

Mr. WALSH. So how do we give them certainty?

Secretary GEITHNER. Well, I think there are a lot of things that we can do and I think that just to speak to the issue of the day, I think it would be very helpful for Washington to come to agreement on a long-term fiscal consolidation plan, you know, a reasonable growth fiscal consolidation plan, because I think that would demonstrate that the country has the capacity—the country leaders in Washington have the capacity to try to make some progress in solving a long-term problem that is a bit of a cloud on the country. I mean, just to be honest about it.

Mr. WALSH. I hear all the time from folks that, look, this recession, this crisis was not the President's. It was there when he came into office. This recovery is his. When you look at this recovery in historical perspective, and I know I am running out of time so you have got to be brief, we are not nearly where we need to be at when it comes to this recovery.

Secretary GEITHNER. I agree with you about that. But I think this is an important question. Mr. Chairman, can I just spend a minute on this issue? Because I think it is at the center of this big debate we are having about the country and it is very important to understand this issue as we think about what we can do about it.

And I think it is important to recognize that you had a crisis caused by a country that was living beyond its means. Too much leverage in the banking system. People across the country borrowing way beyond their means. And when you have a crisis caused by that, then recoveries are necessarily unavoidably slower. And why is that? When you build too many houses, you are going to have a long period where construction is weak. When people have to reduce the amount of debt they have to feel more secure about the future, they are going to spend less, be more cautious when banks have to deliver. So those create headwinds for the recovery that consign us to more moderate recoveries than we would normally have. Much more modest recovery is the reality we face today. The question is how can we make it stronger? How can we make it better? And I think we can do things on the tax side by expanding exports, by doing a sensibly designed long-term fiscal plan. By being careful about the balance in regulations, we can improve the odds if we get more people back as quickly as we can. But most of what we are living today as a country now is the effects of those mistakes we made up to and after the crisis.

And if you look outside construction, you look beyond the banking system, you look beyond the sectors most directly affected by people being a little more careful about how they spend and borrow, the rest of the American economy, if you look at export performance, private investment growth, productivity growth, agriculture, manufacturing, high tech, this is a very resilient, very productive, very innovative economy. And we have a very good chance, if we make some sensible judgments coming out of this, to emerge from this crisis stronger.

Mr. WALSH. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Chairman GRAVES. The chair recognizes the gentleman from Louisiana, Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here.

In anticipation of this hearing I did reach out to my local community banks and businesses to just get a sense of what they would like to hear and get answers to, one of which I think we have talked about for awhile. However, I would like to just ask the question again and get as concise an answer as possible so I can make notes and give them the answer. Particularly, some of the banks applied for the SBLF on the first day and they still have yet to hear any type of response. I heard you say that there are numerous steps but their question is can you give a timeline to the best of your knowledge, or if you have to get back to me that is fine, on when these banks should start hearing their fate in the program?

Secretary GEITHNER. Relatively soon. As I said, we have had about 850 banks apply. The first step they have to go through is they have to go through their primary regulators. We only see the applications or we only look at applications after they make it through that process. That process is taking longer than I think anybody expected. But we are moving as quickly as we can. But remember, we have an obligation to be careful; careful with the taxpayers' money. So we will give people as quick a response as we can.

Mr. RICHMOND. Just to follow up on that, something that may help us is to let us know how many have been through that first phase of the regulators and are now sitting in Treasury.

Secretary GEITHNER. I cannot tell you that now but we are not the meaningful source of delay.

Mr. RICHMOND. Okay. If you can get me that information that would certainly help.

The second question posted from the bankers was how especially in Louisiana we continue to lose our local and community-based banks because of mergers and acquisitions by larger banks. And following the financial crisis, the bigger banks are only getting bigger. Knowing community banks are the engines of entrepreneurship in their local communities, what is Treasury doing to affirmatively support the local banks and to help them grow and sustain themselves?

Secretary GEITHNER. A very important question. You are right to say that one of the great strengths of our system and we intend to preserve it is we have a system with I think more than 8,000 banks, community banks, operating alongside the large institutions. And that is a great strength of our system and it makes the system more stable, more resilient, more responsive to the needs of Main Street businesses. We intend to preserve that.

The two most important things we can do about that are, one, make sure that we help these programs to provide capital to banks, reach as many institutions as possible. And the second is to make sure that as we reform our financial system we are putting the bulk of the burden for reform on the large institutions that took the most risk, whose failure caused the most damage. And so just to give you two examples, we are putting higher capital requirements on the large institutions relative to the risks they take, relative to small banks. And we are making sure that large banks, not small banks, bear most of the cost of solving future crises. Those are just two examples. But again, we are committed, as are you, to try to make sure we preserve a system with this great strength of thousands of institutions that operate in these communities and can better meet the needs of their Main Street customers.

Mr. RICHMOND. And in just shifting a little bit from community banks, my experience in Louisiana especially and watching our small business growth and actually had some very good results with the New Market Tax Credit program, part of my question would be to maybe gauge the administration's view of the success of new markets. What can we expect in the future in terms of new market, which is a very creative way to put equity investments into communities to create jobs?

Secretary GEITHNER. You are right. It is a great program. It has had a lot of bipartisan support over a long period of time. A very good record everybody can look at for impact. And the main thing that we are looking at now is to try to make sure we can enhance the program so that more of the incentives go directly to small businesses that are not directly in the real estate business. And we think we can do that. We have got some suggestions on how to do that. I am happy to have my colleagues brief you in more detail on what we think is possible there.

Mr. RICHMOND. And in my last 30 seconds I will just make a quick comment, which is to, as best as we can, to continue to help those small businesses, especially as the administration will come to us and present maybe three trade bills to us, to make sure that our small businesses can compete, to make sure that they can get their products and their goods to market and all of those things so that they can be competitive.

And I will end with my last plug, as always. We cannot get our goods to market unless we dredge the Mississippi River. Sixty percent of all grain in this country comes through the Mississippi River. There was an 800–foot ship stuck in the middle of the Mississippi for two days a couple of weeks ago. So we have to do that if we are going to be serious about doubling exports and getting our goods to market. So thank you again for coming in. Mr. Chairman, thank you.

Secretary GEITHNER. I agree. Exports and infrastructure are a very important part of our long-term growth strategy.

Chairman GRAVES. Thank you, Mr. Richmond.

Now we have to turn to another member from Louisiana, Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chair. Mr. Geithner, if I ask you a question that you answered already, I apologize. I had to go to a committee to vote.

You know, it is frustrating on our end because I hear your comments that, you know, you tried to place the majority of the burden on the larger banks because it seems like they were more at fault as to this meltdown. But yet I do not hear them crying as much as I do the community banks. Why do not we just waive the community banks from Dodd-Frank and then if that is the case, then we can allow the community banks to go back to being community banks because they are crying more than the larger banks under this bill? So how can that be if what you are saying is we tried to place more burden on the big banks than the small banks?

Secretary GEITHNER. Dodd-Frank did largely, not completely, but did largely leave small banks out of it. But I think if you listen carefully, the large banks are complaining much louder. They are spending a huge amount of money trying to undo, shift the burden, delay the reforms that are targeted at them and their risk taking. They are spending a huge amount of money trying to block, delay, erode, weaken, walk back. And I think it is important to small businesses, to businesses and small banks that you guys do not let that happen because again, why would you want to put the country through what we went through in this crisis where so many innocent victims were left bearing the consequences of a lot of mistakes they were not part of?

Mr. LANDRY. Look, I am with you. I am trying to protect our community banks. And that leads me into the next question. You know, I started several businesses. One of them, the first one actually using a SBA loan. And I was always under the impression that SBA loans were kind of a bridge to help the little guy out there when the other banks were not able to or did not want to lend to them. But yet my community banks are telling me that now, in fact, I had a real life example of where there was an application by a business owner to invest in a business and he had great credit, he had plenty of collateral, but the examiners would not allow the community bank to make the loan because they felt that his business plan—he could not prove that his business plan could continue to pay the note. Well, if that was the case, a lot of us would not—I would have never been able to start my business. But yet he was able to get a loan through small business. And what concerns me is that here we have the private market willing to take the risk, but yet we are moving them to the taxpayer who is going to take the risk when the private market would gladly take the risk. And they are pinning that on the regulators. Why would that be? I mean, is that the effect that you guys would like?

Secretary GEITHNER. I do not think so. And I agree with you. And I think that you are right that the challenge in this is you have to figure out how to put out a financial fire, make sure you open up the credit channels again when they are stuck because of the crisis, but do so without creating more dependency on the government over the long run or crowding out private markets from financing. I think we have actually been very, very successful at doing that in the financial system as a whole. And the terms of these loans, these programs are established in a way where as conditions improve, as people are willing to take more risk, as the private markets come back and it will not be economically attractive or sensible for banks to rely on the government for these programs.

Mr. LANDRY. So you are saying that example should not have happened?

Secretary GEITHNER. Well, I do not, again, in a crisis, for a temporary period of time when the markets freeze up and private investors pull back——

Mr. LANDRY. But this was within the last six months.

Secretary GEITHNER. I think now you should see the balance shifting. And you are right. I think your point is we should not create a system where government programs are crowding out private capital from financing that. Absolutely. And I do not think that we face a meaningful risk of that. I do not think we do.

Mr. LANDRY. As long as I have your all commitment that that is not what you are trying to do.

Secretary GEITHNER. Absolutely not.

Mr. LANDRY. Okay. All right. Thank you, Mr. Geithner. I yield back.

Chairman GRAVES. The chair now recognizes the gentleman from Pennsylvania, Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here.

Talking about the SBLF, launched December 20th of last year, as of June 20th of this year you have 869 applications for approximately $11.6 billion in funding. There is $30 billion available. Is it succeeding? Is that where you think it ought to be? Or are there issues that we need to review or that you can help to get that money into the economy?

Secretary GEITHNER. Well, as I said at the beginning several times, I think we are a little behind what we thought was the realistic schedule at the beginning, and that is because it is taking longer to put in place the checks and balances to determine eligibility. In our system, those checks and balances to protect the taxpayer depend on two steps. One is the review by regulators. That is taking longer than we thought. But as I said, we think we are going to reach a meaningful number of institutions and make a meaningful difference in their capacity to lend. And I think we are largely going to achieve the basic objectives of the act. You cannot be sure at this stage because it is still early days.

Mr. CRITZ. So the delay caused—where I am going is I would have thought that banks would have been out there. They would have seen this impasse and would have been sending applications in?

Secretary GEITHNER. Oh, yeah. They came and they came in numbers, in the hundreds.

Mr. CRITZ. Which is not a big number.

Secretary GEITHNER. Well, actually, I think it is a pretty big number.

Mr. CRITZ. Okay.

Secretary GEITHNER. I think it is a pretty big number because, you know, it is true we have 8,000 banks but many will not be eligible. Many of them are fine on their own. So I do not think it is a surprisingly small number.

Mr. CRITZ. Well, the thing that I find interesting about it is that the dividend that the banks will pay the Treasury goes down as they lend more to small business. So it is a huge incentive. This is not a Democrat or Republican issue. I think we all have small businesses that are looking for credit and having a hard time finding it. So this program seems so perfect for that opportunity.

Secretary GEITHNER. I agree. I think it is a well designed program, pretty powerful incentive and, you know, again, I cannot be sure why it is 800 and not 2,000. But I do not think it is that surprising, again, because you have a lot of institutions that feel fine on their own and, you know, do not want to do business with the government. And frankly, I do not—I think that is reasonable. You want people to be reluctant to come to the government.

Mr. CRITZ. Right.

Secretary GEITHNER. And we would like these programs to reach as many institutions but we cannot force them to come.

Mr. CRITZ. Well, that brings me to my next point, which is a statistic, and I am assuming it is accurate, about 38 percent or, no, 59 percent of the funds requested are from institutions that took TARP money, and they are trying to convert that money. Now, are we defeating the process by converting TARP money to this? I mean, it really was not to do that.

Secretary GEITHNER. Well, no, it actually was designed to do that. Congress chewed over that and thought about it a lot and decided that was a good thing to do. And the reason why they reached that judgment, and I agree with that judgment, is there are just two reasons. One is because the reasons you said, this is a, we think, pretty well designed way to create incentives for more lending. So we think it has more bang for the buck in terms of lending than the additional, the original capital programs.

Mr. CRITZ. Okay.

Secretary GEITHNER. So we think that is a good reason you should let them refinance. The other reason is just a fairness question. You know, why should you penalize institutions that took the initiative to apply for the initial capital program? Congress issues a new program. It is more economically attractive. Why would you penalize them for coming early?

Mr. CRITZ. All right. You had mentioned earlier about housing, the construction, small businesses and construction took a huge hit. I had my staff run some numbers that Home Depot's fourth quarter profits were up 72 percent. Lowe's is more for a home person. Home Depot does a lot for individuals but also a lot for small construction companies. Lowe's was down a bit. Then 84 Lumber, which is one in my district. Of course, they are much smaller than they were in '05, about a third of what they used to be. But it seems like there is some activity there, although when calling the halls, the union halls back home, I know I got a lot of people that are still laid off and we are in prime construction season. So you know, this housing issue is going to drag on our economy for quite some time. Are there things that we should be reviewing as a Committee that we can help jumpstart or help get that housing inventory off the market?

Secretary GEITHNER. I think you are right. Housing is still very tough. There are some signs of light in some parts of the country but you know, with unemployment so high it is not that surprising. You still have such a large imbalance between homes out there and demand for new homes. And that is going to take realistically several more years to work through.

We think the three most promising things you can do about that are first, and this is overwhelmingly the most important one, is to make sure growth is stronger. More people back to work, more incomes growing again. That is the most important thing we can do. And everything we do here and you do in Congress should be governed by that basic simple objective.

Housing specifically, we are trying to make sure that we bring this broader global settlement effort to improve the foreclosure process down to earth on sensible terms to reduce some uncertainty. And we are trying very hard to make sure through the full complement of housing programs we have through HUD, FHA and the ones authorized by Congress for the Treasury, that they reach as many people as they can. They have helped set a new standard for modifications that have helped two to three million Americans stay in their homes who can afford to stay in their homes, but they cannot reach everybody. But we want to make sure they reach as many people as possible.

Mr. CRITZ. Thank you, Mr. Chairman.

Chairman GRAVES. The gentlelady from North Carolina, Ms. Ellmers.

Ms. ELLMERS. Thank you, Mr. Chairman. And thank you, Secretary Geithner, for being here today.

Mr. Secretary, I have listened to all of your testimony and especially your last few statements there. Obviously, the answer to our economic problem here in this country is jobs. We have got to get businesses hiring again.

Now, you, in your initial comments, kind of painted a pretty rosy picture, certainly much rosier than what we see back in North Carolina or in the Second District of North Carolina. You said 15 straight months of economic growth with about a million jobs created over the last six months. And yet we are sustained at above nine percent unemployment for over 23 months. Overwhelmingly, the businesses back home and across the country continue to tell us that regulation, lack of access to capital, taxation, fear of taxation, and just the overwhelming uncertainty that our businesses face is what is keeping them from hiring. They just simply cannot. They have cut everything they can cut. Our households have cut everything that we can cut. And yet we are talking about doing some things in the future. Right now we are at a standstill with the lending. We have no guarantee, and as you have stated, you have no ability to tell us when that will occur, especially with the small business loan program.

Looking into the future, you are supporting the idea of taxation, increasing taxes on those who make $250,000 or more. Those are our business owners. Those are——

Secretary GEITHNER. They are three percent of your business owners.

Ms. ELLMERS. Three percent.

Secretary GEITHNER. Three percent of your small businesses.

Ms. ELLMERS. Sixty-four percent of small businesses. Sixty-four percent of jobs created in this country are for the small businesses.

Secretary GEITHNER. No, that is right. I agree with that. But just to put it in perspective, it is important to recognize why are we doing this? You know, our deficits are 10 percent of GDP, higher than they have been since any time in the post-war period really. We have a big hole to dig out of and we have to figure out how to do that in a way that is balanced, good for growth, fair to people as a whole. We are not doing it because we want to do it. We are doing it because if we do not do it then again I have to go out and borrow a trillion dollars over the next 10 years to finance those tax benefits for the top two percent and I do not think I can justify doing that. And if we were to cut spending by that amount to do it, you would be putting a huge additional burden on the economy, probably a greater negative economic impact than that modest change in revenues. So that is why.

Ms. ELLMERS. Then what is the goal? You stated it is only three percent. What is——

Secretary GEITHNER. Of small businesses.

Ms. ELLMERS. What is the goal then in increasing the taxes?

Secretary GEITHNER. Well, no, the goal is that, and I know you and your colleagues understand this and you care about it deeply, we are living with unsustainable deficits.

Ms. ELLMERS. Yes.

Secretary GEITHNER. If we do not address them, they will hurt economic growth and investment in the United States.

Ms. ELLMERS. But if, as you stated, only three percent of small businesses will be affected, how can that increase in taxation be that significant to turn that around?

Secretary GEITHNER. Well, you are making our case in the sense that——

Ms. ELLMERS. The point is we need jobs.

Secretary GEITHNER. We are not doing it because we want to do it. We are doing it because we see no alternative to a balanced approach to reduce our fiscal deficits. And again, if you do not—I think the House past demonstrates this, if you do not touch revenues and you leave in place the tax cuts for the top two percent that were put in place by President Bush, if you leave those in place and you are trying to bring our deficits down over time, then you have to do exceptionally deep cuts in benefits for middle class Americans and you have to shrink the overall size of government programs and things like education to levels that we could not accept as a country. And so to do a balanced approach to reduce our deficits you have to make modest changes in revenues. There is no realistic opportunity alternative to doing that. But, you know, we have to be careful how we do it.

Ms. ELLMERS. Okay. I would like to reclaim my time for a moment. You, we all agree jobs are the answer. And yet you are willing and more than capable of putting that excessive burden, which we already know from our small business owners is the issue, why would we go and—why would we do more? Why would we harm them more? Why would we create more uncertainty in the private sector?

Secretary GEITHNER. I am not sure we disagree fundamentally. The economy needs to grow to create jobs. Our basic challenge is to try to figure out how to make growth faster, more sustainable, and translate into more jobs. Part of that is expanding exports. Part of it is making sure that we are investing in infrastructure, education, things that matter to our strength. And part of it is a balanced growth-friendly approach to deficit reduction over time because if we do not fix that problem, you will leave a broader cloud in the economy longer term. But we have to be careful how we do it so we do not hurt the economy.

Ms. ELLMERS. Well, Mr. Secretary, I would just like to close by saying that on behalf of the business owners in North Carolina and across this country, you are wrong.

Chairman GRAVES. The gentleman from Michigan, Mr. Peters.

Mr. PETERS. Thank you, Mr. Chairman. Thank you, Secretary Geithner for being here. And I want to take a moment before I ask a couple of questions to tell you where you are right. In fact, I had the opportunity yesterday before I flew into Washington to be at a groundbreaking for a new Chrysler facility. I represent Michigan. In fact, Chrysler is headquartered in my district but I was at a groundbreaking for a new factory, a new paint shop, an $850 million investment in that plant, which is about 2,200 jobs just in that plant. And as you know as well as anybody, those 2,200 jobs translate into a lot of other jobs throughout the economy, not just the auto suppliers but all of the small businesses that are located through there. And I am a relatively new member of Congress. I came in in 2009 at the height of the financial crisis. I remember sitting in the boardroom with Mr. Nardelli, who was the CEO of Chrysler at the time who said in very explicit terms that if there is any assistance for Chrysler as they go through bankruptcy because of the credit markets that had basically seized up because of what had happened, the fiasco on Wall Street, there simply was not money available for a company the size of Chrysler or General Motors to get through bankruptcy. They needed access to funds. He said very clearly that they would go into liquidation. This company would just close, liquidate, sell everything off.

And I was sitting in Chrysler headquarters, which is the second largest building in the country next to the Pentagon. And that building would have been shuttered. Thousands of people would have been laid off. Grass would have been growing in the parking lot. That money was necessary. The President did a very courageous thing. Took a lot of heat from a lot of people around this country. You took a lot of heat from people around the country. Made that investment.

And now fast-forward two years. That building actually has run out of space. They are going to be hiring an additional thousand engineers. They cannot put them all in that building. They are looking for additional real estate, additional jobs in the community. And Chrysler has announced, as you know, paid off the money from the taxpayers with interest. It is an incredible success story.

Thank you for doing that. Thank you for believing in American workers. Thank you for believing in the American middle class because those are jobs that we are seeing, not just in Michigan. Those are jobs throughout the country, through suppliers all through the country, through auto dealers. Our auto dealers, many of them would have been closed. They would have been closed had that company liquidated. And those are important small businesses in every one of our congressional districts that would have disappeared. So that was a courageous thing to do. Thank you for doing that. It is a great success story. Now we need to continue to build on that success, continue to build on those jobs.

And as you know, it is certainly something that I have worked a great deal on with small business lending in particular with my work on the financial services committee. And one area that I worked in particular with was with Gene Sperling, who is now with the White House Economic Council and that is on the State Small Business Credit Initiative, which we have heard. You have had some questions from folks on that.

And I wanted to just put in the record some of the successes with that State Small Business Credit Initiative. Mr. Chairman, you should have a letter that was submitted by our governor in Michigan, Governor Snyder. I would like to have that letter entered into the permanent record.

The Small Business Credit Initiative was really modeled after what we are doing in Michigan, what we have been doing in Michigan for a number of years, which is a collateral support program that has been particularly helpful right now to those smaller auto suppliers as the auto industry is recovering. And yet a lot of those smaller auto suppliers are in a situation where their factors are worth considerably less so they cannot get loans that they needed. But this program, which was a bipartisan effort, it was started by Governor Granholm, a Democrat, and it has now continued to be supported by Governor Rick Snyder, who is a Republican. In the letter that I have entered into the record, he talks about the very successful experience that we have had in the state of Michigan. Michigan has not experienced since they started the program in 2009, not a single loss. And I am quoting here, "while generating nearly $200 million in private loans with a very small public investment. It is a good investment that has leveraged considerably."

Now, I know these programs are starting to get these applications and you are approving them, but I would expect because of the success we have had in Michigan and other states, that this is something that should gear up fairly quickly because of the experiences we have had. What is your expectation? Now that that is occurring, applications are continuing to come in. Is this a program where we are going to get fairly quick results, particularly relative to other components of the act?

Secretary GEITHNER. I think so. It depends, of course, on how quickly the states are able to put the money to work. But I think in California and North Carolina they are already making loans. Missouri's fund has already been oversubscribed with 55 applications. So I think the speed will depend on how quickly the states can put the money to work. But I think you are right to point out the benefits of it. Again, the basic insight we adopted with the support of you and many others is to work with the grain of established programs that have a good record of doing these things carefully. And that is the promise of the program.

Mr. PETERS. And I appreciate the effort. And Mr. Chairman, I have another letter just in closing from the Michigan Credit Union League. We also had credit unions and other institutions that have participated and have seen this program as a success in the past and are looking forward for the additional resources. But thank you for your work, Mr. Secretary.

Secretary GEITHNER. Thank you.

Chairman GRAVES. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. I would just comment in listening to the last presentation that an additional 1,000 engineers and the success of Chrysler, I bet the security creditors that had their assets confiscated in the Chapter 11 filings have also been made whole and who had their assets restored and received their dividend checks and that the shares that have been handed to the unions have been handed over to their rightful owners. I don't think any of that happened. And that is the other side of the story from the gentleman's comments.

But Mr. Secretary, aside from those disagreements we might have here on the panel, I am curious about some things to lay down a foundation. And when I listen to you speak and I appreciate your testimony, I do not hear things I disagree with. And often your analysis is accurate within at least the scope of what you are talking about. So just a couple of questions to help me illuminate your philosophy. On a scale of one to 10, how would you rank Milton Friedman?

Secretary GEITHNER. That is an interesting question. I am not an economist. I am not a trained, credentialed economist. So I would say I probably agree on a lot of his things but not everything.

Mr. KING. You would not put a number to that?

Secretary GEITHNER. No, I would not do that.

Mr. KING. Would you put a number to John Maynard Keynes?

Secretary GEITHNER. No, I would not do that either. I would say sort of the same thing which is no perfect guide in either to the challenges facing the country but things we can draw from both.

Mr. KING. Adam Smith?

Secretary GEITHNER. I am not going to give you a number. I will say the same thing to you no matter what.

Mr. KING. I am a little surprised because I would look at you and I think this is a man that is a complete expert on all three of these individuals who has a——

Secretary GEITHNER. You have got the wrong guy.

Mr. KING [continuing]. An intuitive and an intellect and a gut understanding of the flow of market capitalism globally and historically going back a couple of hundred years plus. I do expect you to have that basis of knowledge.

Secretary GEITHNER. I am a student of financial crises, unfortunately, but not a credentialed economist. You know, the philosophy I bring is a much more pragmatic test. What is going to work? Ultimately, that is what matters.

Mr. KING. Then I am interested in what is going to work as well. And we discussed the burdens of regulation on business, in here primarily small business, and there are a few things that stick in my mind having founded and operated a small business for not quite 29 years and it is a second generation business today. And I would list three of the top regulation burdens which we discussed as a small businessman by trade. And I would list them IRS, Obama Care, Dodd-Frank. Can you come up with any regulations or any proposals that are heavier, a heavier burden on small business than those three?

Secretary GEITHNER. That is an interesting way of framing your question. But I take a different approach. The tax burden on small businesses, as I said in the beginning, is lower today than when the President took office. Now, you are right. Congress is now debating what should happen to tax policy in the country as we try to dig out of our deficits. And we are going to have to figure out a way to do that that is fair to the American people, that can be passed by the Congress, that is good for future growth. And people disagree on that. The country is very divided on that. But the tax burden today is lower than when the President took office. We have already discussed the financial system at some length. I know a fair amount about that. And again, I would say how good was it for small businesses across the country that they were left with this amount of damage caused by a failed financial system, something we have to fix. And again, the bulk of that law is not directed at raising burdens on small banks. That is a point to avoid.

Mr. KING. Mr. Secretary, let me just inject in this. And in your earlier testimony you talked about the crisis was caused, at least in part, by a country living beyond its means. And I agree with that. And we have overbuilt in housing. And I agree with that. And I would ask though that the solution for that appeared to be TARP, economic stimulus plan, increasing a lot of government spending. And now we have a government that is living beyond its means. It seems as though from sitting here as a member of Congress and a small businessman, that the solution for the problem is to apply to the Federal government the same problem that small business had. In other words, we overspent with government. We lived beyond its means. Now, I believe I heard some reference to you in that if you have that kind of a solution it delays the recovery because we have to pay interest and principal, some concept along that line. Not your words, certainly.

Secretary GEITHNER. Well, let me tell you how I approach this. You know, again, we have unsustainable deficits, long-term, short-term. They are a product of a bunch of decisions made in the last decade, the product of the recession. And the principle driver over the long run is that Americans are living longer, aging, health care is very expensive. Now, if we do not address that then investment will be lower, growth will be weaker, interest rates will be higher. The economy will be burdened by that.

Mr. KING. We do agree with that. I agree with that. But when you apply the Federal government's debt, is it the same concept of the equation as a business that is overleveraged?

Secretary GEITHNER. A little different in the sense that, you know, governments are not a business, not a family. And in financial crises and recessions, the lesson of history is that when the markets pull back, the government has to step in temporarily. But only temporarily, and it is very important to make sure that the government pulls back as it is now doing. And the government is starting to pull back now. That is slowing growth a little bit so you want to be careful not to overdo it. But the key lessons should be for us is the composition of these reforms on the budget side have to be designed in a way that they do not hurt growth short-term and long run. That is why we believe you have to have some balance.

Mr. KING. If I could ask unanimous consent for just an additional question. Thank you, Mr. Chairman.

I just, and again, your testimony is interesting to me, Mr. Secretary. And one of the things you said was Roosevelt said that one thing we need is bold experimentation. And I recall a statement made to us by the President and that date was February 10, 2009, in speaking to a Republican Conference when he said that Franklin Delano Roosevelt's New Deal actually did work. And that the problem was that he lost his nerve in the second half of the '30s and got concerned about spending too much money. And he pulled back, which brought about a recession within a depression. Unemployment went up and then along came World War II, the largest economic stimulus plan ever. That is almost verbatim. It is conceptually exact. And so I am wondering what you think of this bold experiment of President Obama's. It seems to be committed to be substantially more bold than that of Franklin Delano Roosevelt.

Secretary GEITHNER. I, of course, work for this President and I believe in everything he is doing but I would not quite compare it that way. I was using that phrase to refer to the range of things we had to do to fix the financial system, put out the financial fire, and you know, we did exceptional things no one would ever want to do and would never want to do again ever. And the things we are doing on the credit side, capital side are very creative, no precedent for it. And they require new approaches. That is what I was referring to.

Mr. KING. Well, I like audacity when you are right. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman GRAVES. The gentleman from New York, Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman. Thank you, Mr. Geithner, for coming today.

As I listened to your testimony and listened to the questions from the floor, one thing seems to reach out to us and that is the demand is really the key, both in terms of product, that is sales. It is also generating demand for bank loans. The critical issue then really is how do we generate demand which will then flow through the economy and essentially bring us out of this recession? I assume you agree that demand is the key?

And one of the things that it appears to me that we have not done here in Congress is really developed a real jobs creation program. And I have to say that from my perspective it does not appear that the administration has done that either. You may disagree but that——

Secretary GEITHNER. I do.

Mr. OWENS [continuing]. My perspective.

One of the things that we have on our plate that I think we could do that would stimulate demand, and I hear this from my small business owners back in my community, from my bankers, is get the transportation bill passed which would push dollars into infrastructure. Do you agree with that?

Secretary GEITHNER. I do. I am a very strong supporter of the need for a very large, much more substantial level of investment over the long term in improving the nation's infrastructure. I think it is important for businesses. We have underinvested in those. That raises the cost of doing business, taking goods to market. There is a very strong economic rationale for doing it. It would help get employment up, people back to work in the parts of the economy most affected by the crisis. Very strong economic case for doing it.

Mr. OWENS. So then you would urge us as one of the positive things we might do to stimulate demand is to make sure we pass a transportation bill as quickly as possible?

Secretary GEITHNER. I would absolutely say that, you know, we have to make sure we can pay for it, we do it responsibly, but it is one of the most effective things we could do to help improve the strength of recovery, breadth of recovery, job creation.

Mr. OWENS. Thank you. Just two other points. You also mentioned during your testimony the Clinton era tax rates. During that period of time, I believe if we look back historically we also saw significant GDP growth in those years.

Secretary GEITHNER. We did. I think if you, again, if you just compare most measures of economic success, if you compare the record of growth, private investment, job creation, income growth, productivity growth between those two periods, employment growth, job growth, the period of the second half of the '90s and the decade that followed, very good evidence for the type of growth strategies that we are promoting today.

Mr. OWENS. And so it would appear, one could also conclude, that those tax rates did not impede either job growth nor GDP growth.

Secretary GEITHNER. Absolutely. In fact, I think you can say that the economy did very well during that period of time by all the measures we choose to judge economic performance by.

Mr. OWENS. And the final question I have for you goes to working capital. Just by way of background, I spent 14 years on a bank board and 10 of those years as a permanent member of the loan committee. So I think I have——

Secretary GEITHNER. My condolences to you for that.

Mr. OWENS. When we talk about working capital, there is some confusion I think that goes on in the conversation. In my view, the strain on the working capital issue is because normally working capital is pegged to inventory and accounts receivable. And because you have declines in working capital, it is because you do not have AR and you do not have inventory. And there is really not much that I can see that government can do about that directly. That has to come as the result of increased demand.

Secretary GEITHNER. I agree with you completely. I mean, again, it is important to step back and remember what we have been through. We had an economy frankly with too much debt, economy was falling at a rate of about five to six percent a year when the President took office. That was going to come with it a substantial fall in demand for lending. That was going to be magnified as the country pulled back and went to living within its means. No surprise. You saw demand for loans fall very, very sharply over that period of time. But that decline would have been much, much worse if we let the financial system burn and collapse. And the case for capital, the case for the programs you put in the emergency is to make sure you did not see the capacity of the system to support lending contract unnecessarily. And we were very successful, not just in putting out the fire at a very low cost to the taxpayer, but in bringing rates of cost of lending down very dramatically, opening up the credit pipes very quickly. And I am very confident that this financial system today is now in a position where it can finance a growing recovery within concern that there will be a very substantial meaningful capital constraint on the capacity of the system to lend. There will be pockets of constraints and weakness, but for the system overall, our financial system will be able to support a growing recovery.

Mr. OWENS. Thank you very much, Mr. Secretary. Thank you, Mr. Chairman.

Chairman GRAVES. The chair recognizes the gentleman from Ohio, Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. Mr. Secretary, I think we are now only beginning to comprehend the extent of the compliance costs that will result from the passage of last year's, what I would consider to be pro-bureaucracy, Dodd-Frank bill. As with any regulation, the smallest firms are going to have the most difficult time complying. They have the least resources to deal with so it will take up a disproportionate share of their available resources in that compliance, while many of the larger financial institutions may be able to weather the increased burden of complying with the act's existing and proposed regulations. Small and community banks are already scrambling to survive. How can the administration claim to promote access to capital for small businesses when it is smothering the very community banks that are the lifeblood for small business entrepreneurs across this nation?

Secretary GEITHNER. Well, Congressman, I think you understand my views on this. My view is, no surprise to you, that a law was appropriately and carefully designed to reduce the risk that it was putting an unnecessary burden on small banks who were not the principle source of the problem and we rely on a lot to be a source of lending to small businesses going forward. Now, they were not left untouched by the law but overwhelmingly the thrust of the reforms in the law are targeted at parts of the system they are not part of. At derivatives, at the complicated risk management challenges facing large firms. And if we had not done that we would be leaving this economy vulnerable to another crisis like this. And again, this was a crisis exceptionally damaging to the innocent victims among small businesses.

Mr. CHABOT. I have only got limited time so let me just say that I am hearing still from especially small community-type banks and small business entrepreneurs and you have heard the uncertainty that this is causing, et cetera. But let me move on to——

Secretary GEITHNER. Can I just say I will try to be very quick.

Mr. CHABOT. Let me move on, if I can. Last year the administrations' major initiative and its so-called jobs bill towards increasing lending to small businesses was to push more government spending. In this case, to create a $30 billion mini-TARP, the Small Business Lending Fund out of remaining TARP funds. Now, your Treasury is warning us that we are on the brink of financial catastrophe unless we raise the debt ceiling. In fact, you said in May that a "default would not only increase borrowing costs for the Federal government but also for families, businesses, and local governments." If we are indeed close to disaster that would severely jeopardize lending, would you be willing to return the remainder of the $30 billion in mini-TARPs so we can move towards paying down the debt and therefore averting this disaster?

Secretary GEITHNER. Well, of course. The loans that we cannot spend, the resources we cannot spend because we do not have eligible banks for it go back to the Congress. But unfortunately, they will not make a meaningful contribution to reducing our long-term fiscal problems. But those funds, if not used, go back to you. You can choose what to do with them. I would recommend you put them to deficit reduction.

Mr. CHABOT. All right. And I am for deficit reduction, too, so we certainly agree on that. But let me ask you about that, again, the debt ceiling question. The business about that we are going to default, our nation is going to default, the actual——

Secretary GEITHNER. We are not going to default because Congress is going to do what they need to do.

Mr. CHABOT. Yeah, we are not going to default. I would agree with that. Let me ask you this. How much of the actual expenditures goes towards paying down this so-called debt? Is it 15 percent or thereabouts?

Secretary GEITHNER. Do you mean the interest costs?

Mr. CHABOT. Yes.

Secretary GEITHNER. Well, you know, we borrow roughly 40 cents for every dollar Congress has authorized us to spend.

Mr. CHABOT. I have heard up to 43 cents on a dollar.

Secretary GEITHNER. Roughly. Interest costs are a much smaller fraction of it. But here is the basic problem. And I think the best analogy is to use the business analogy or small families' analogy which is if you stop paying your utility bill, your credit card and just pay your mortgage, who is going to lend you money? And if you had to refinance your mortgage every month, like we effectively have to do, who would lend you a dollar? So there is no responsible path that avoids default, avoids cash offered to the economy that has us decide as a country we are going to stop paying all our obligations so we can pay interest. It does not work. It is not workable. And it will not relieve Congress of the obligation of raising the limit.

Mr. CHABOT. I certainly agree that we should not default. And I would just argue that a lot of the sky is going to fall, we need to be careful about what is being said. And also it is not only yours but Congress's determination.

Can I have an additional minute, Mr. Chairman?

The determination, you can prioritize where the money is spent. You can say the debt continues to get paid, the Social Security checks continue to go out. Perhaps our troops continue to get paid. But other things, we are going to make substantial cuts.

Let me move off that for one last quick question. It was raised here a couple of times the 9.1 percent unemployment. It went from 8.6 to 9.1, which is most unfortunate. We are heading in the wrong direction. But it is really a lot worse than that 9.1, is it not? I mean, we are talking about the fact that people who used to be full-time, some are now working part-time. People are underemployed and they have a college education and they are now perhaps working in the fast food industry flipping burgers, although lots of people do that. It is respectable work. But perhaps they did not need a four-year college degree to do that. And the people are just—a significant group has stopped looking altogether. And those ones I just mentioned are not even included in that 9.1 percent, so really it is worse than that. Would you agree?

Secretary GEITHNER. My quick response. First, you are asking whether my judgment is right about the consequences of default. But what I would just ask you to quickly ask your staff to show you are letters written by every President, every Secretary of the Treasury, who has faced this problem over the last several decades and you will see in Ronald Reagan and Jim Baker and others, eloquent testimony to the risks of contemplating what you are proposing. There is no responsible path for making that work. On-the-job stuff——

Mr. CHABOT. Let me just interrupt you for a second. And you know your boss said that it was irresponsible to vote to increase the debt ceiling and voted against it as well. And I am referring to President Obama.

Secretary GEITHNER. He also said that that was a mistake. As many people have said, it was a mistake.

Mr. CHABOT. He said it was a mistake.

Secretary GEITHNER. But on the specific question you are suggesting is go back and look at my republican predecessors. You will see they have made the same judgment.

On the jobs front, again, I would say this. You are absolutely right that, you know, the national averages mask a lot of differences across country. Unemployment is much higher in many ways. But remember, it is two million private sector jobs since job growth started. Hours worked have increased more than that. And incomes are growing because the economy is growing as a whole. But we have a long way to go to dig out of it. Our collective task responsibility is to figure out how best to do that.

Mr. CHABOT. And the population has increased as well. So we have to put on jobs just to tread water.

Secretary GEITHNER. You do. You are exactly right about that.

Mr. CHABOT. Okay. And thank you, Mr. Secretary. We appreciate you being here. Thank you, Mr. Chairman.

Chairman GRAVES. Thank you, Mr. Secretary. On behalf of the Ranking member, and I might point out that the only reason for her absence, she was managing amendments on another committee, which was completely unavoidable. And so on behalf of the Ranking member and myself, we appreciate very much you being here and your testimony. And we are going to get you out of here on time.

I would ask unanimous consent that all members have five legislative days to extend and revise their remarks. And I would also ask unanimous consent that the record for this hearing be left open for 14 days in order to have members submit questions and the Secretary respond. Without objection, that is so ordered. And with that this hearing is adjourned. Thank you very much.

[Whereupon, at 11:53 a.m., the Committee hearing was adjourned.]

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Written Testimony by

Timothy F. Geithner

Secretary of the Treasury

before the

House Committee on Small Business

Wednesday, June 22, 2011

Chairman Graves, Ranking Member Velázquez, I appreciate the opportunity to discuss the Administration's efforts to help small businesses expand, invest, and hire.

Our greatest challenge as an Administration and as a country is creating good jobs. In the month the President took office, job losses peaked at 820,000. The recession ultimately claimed nearly nine million jobs.

Our efforts over the past two and a half years have restored economic stability and resulted in 15 straight months of private sector job growth. While we still need to make faster progress, more than two million Americans have gone back to work in the private sector over that period, one million within the last six months alone.

The Administration's small business agenda is a key component of our efforts to accelerate the recovery and increase the pace of job creation. Half of all American workers are employed by companies with fewer than 500 employees, and small businesses create two-thirds of all private sector jobs.

Small business owners, however, face disproportionate challenges in the aftermath of the recession and credit crisis. Small businesses are concentrated in sectors that were especially hard hit by the recession and the bursting of the housing bubble: construction and real estate. More than one-third of all construction workers are employed by firms with less than 20 workers, and an additional third are employed by businesses with fewer than 100 employees. Just over half of those employed in the real estate, rental, and leasing sectors work for businesses with less than 100 workers on their payrolls. More broadly, the rate of job losses was almost twice as high in small businesses as it was in larger firms during the depths of the crisis.

Over the course of the recovery, employment at larger firms has been growing modestly, while small business employment continued to decline into 2010, although at a slower rate since the recovery has taken hold. Recent preliminary data show employment picking up at small firms, though business surveys suggest that small business owners are still very cautious about hiring.

The banking and credit component of the economic crisis was especially damaging for small businesses, which are more dependent on bank loans for financing than are larger firms.

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Alternative forms of financing, through household credit via mortgages and credit cards, were also deeply compromised by the financial crisis. Mortgages and other loans account for four times the share of liabilities for non-corporate businesses as they do for corporate businesses. Total lending to non-financial businesses shrank for nine straight quarters starting in the fourth quarter of 2008, before turning slightly positive in the first quarter of 2011; on net, lending has declined by a cumulative $4.2 trillion since Fall 2008. Over the same period, larger businesses were able to raise $3.6 trillion by issuing debt securities.

Small business owners reported very difficult credit conditions from the beginning of the crisis well into 2010. Credit conditions have since eased somewhat, with both small business owners and bank loan officers reporting greater availability of financing for small business, especially in 2011. Recently, more small businesses have reported undertaking capital investments than at any time in the past two years—an early sign of improvement, despite continued caution.

We remain committed to providing small businesses with the support they need to contribute to the recovery and put millions of Americans back to work.

The Obama Administration's Small Business Agenda

Over the past two and a half years, the Obama Administration has designed, refined, and implemented policies and programs to support small businesses. There is no single silver bullet, which is why we have taken a multifaceted approach. That approach includes tax relief, so small businesses can invest and hire; developing new public-private partnerships to help small businesses access the capital they need to expand; providing assistance so small businesses can more easily reach export markets around the world; and placing a priority on working with small businesses through Federal contracts.

Small Business Tax Relief

The Administration is strongly committed to supporting small businesses through targeted tax incentives that provide increased capital and key incentives for small business investment and growth. To date, the Administration has supported 17 direct tax breaks for small businesses. These tax breaks were designed to support job creation and retention, entrepreneurship, investment, and growth.

To encourage investments by small businesses, we have supported legislation that increases the ability of small businesses to immediately deduct the cost of machinery, equipment, and other qualifying property. For 2009, the American Recovery and Reinvestment Act (Recovery Act) increased the amount that a small business could expense from $133,000 to $250,000. The Small Business Jobs Act (Jobs Act) further increased this amount to $500,000 for 2010 and 2011. Although this amount would have fallen to $25,000 in 2012, last December's Tax Relief Act increased the 2012 amount to $125,000.

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In addition to these targeted increases in small business expensing, we have also supported more general bonus depreciation measures that allow all businesses, small and large, to immediately write off more of their investments. The Recovery Act authorized 50 percent bonus depreciation for 2009, and the Jobs Act extended 50 percent bonus depreciation through 2010. The Tax Relief Act of 2010 went further, providing for 100 percent bonus depreciation, effectively immediate expensing, for the last quarter of 2010 and through 2011, and provided 50 percent bonus depreciation for 2012.

To promote small business entrepreneurs, we supported increasing the ability of start-up companies to deduct more of their start-up costs. The Jobs Act increased this amount from $5,000 to $10,000 for 2010.

Other tax provisions that the President has signed into law help small businesses with their cash needs. The Recovery Act authorized small businesses to elect to carryback their 2008 tax losses five years instead of the usual two, which allowed small businesses to monetize their tax losses instead of waiting to use them to offset profits in the future. Another Recovery Act provision gave relief to small businesses on estimated tax payments, allowing small businesses to keep needed cash on hand to invest and hire.

The Recovery Act also reduced the built-in gains holding period for subchapter S corporations, allowing some S corporations to dispose of assets and access needed cash, without triggering corporate tax. A provision in the Jobs Act allowed small businesses to carryback their 2010 business credits five years, which let small businesses convert unused tax credits into cash. The Jobs Act also provided a deduction in 2010 for health insurance costs in computing self-employment income, to match the existing deduction for such costs that can be claimed against income taxes—giving small business owners a tax break to conserve cash.

The Administration has also strongly supported tax breaks that encourage investments in small businesses. The Recovery Act increased, from 50 percent to 75 percent, the amount of gain that could be excluded on qualified small business stock. The Jobs Act went further, completely eliminating the tax on gain from qualified small business stock issued after enactment through the end of 2010. The Tax Relief Act extended this 100 percent exclusion for qualified stock issued through 2011.

To encourage job creation, the Hiring Incentives to Restore Employment Act (HIRE Act) provided billions of dollars in tax relief for businesses—both small and large—that hired recently unemployed workers by providing a tax credit up to $1,000 for each eligible employee through 2010 who was retained for more than one year.

We have also supported tax law changes that rationalize the application of tax rules to small businesses. For example, the Jobs Act permanently limited a penalty rule that was disproportionately affecting small businesses.

To improve the tax code and reduce burdens on small businesses, the Jobs Act also permanently simplified the manner in which businesses may claim deductions for cell phones, making it easier for small business owners to receive deductions without burdensome documentation.

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The Patient Protection and Affordable Care Act (Affordable Care Act) includes a tax credit that helps small businesses extend coverage to their employees by covering up to 35 percent of healthcare premiums, with the top rate rising to 50 percent by 2014. Not only is this good for workers and their families, but, by extending coverage, these small businesses will also gain an edge on their competitors – by helping recruit top talent, retain successful employees, and increasing the overall productivity of their businesses. In total, the Affordable Care Act invests an estimated $40 billion over the next decade in tax credits that enable small businesses to invest, compete, and hire.

Building on these recent legislative achievements, and recognizing that some of these tax breaks were temporary in nature, the Administration's FY 2012 budget proposes additional, longer-term tax relief for small businesses to encourage sustained growth and investment.

First, the budget baseline assumes that the amount of small business expensing permitted each year is permanently increased to $125,000 per year, instead of allowing it to fall to $25,000 per year as it would under current law. This would provide a continued tax incentive to small businesses to invest in plant and equipment and create jobs, while cutting small business taxes by $44 billion over the next ten years.

Second, the budget proposes to make permanent the elimination of tax on gain from the sale of qualified small business stock. This proposal would make investments in small businesses more attractive, and provide those small businesses with additional capital to put to work creating jobs.

And third, the budget proposes doubling the small employer retirement plan start-up credit. In conjunction with the automatic IRA proposal, the budget proposes to increase the maximum credit for small employers' start-up expenses for establishing a new retirement plan from $500 to $1,000 per year.

Helping Small Businesses Access Capital

Small business access to capital is essential to providing entrepreneurs the financing they need to start a new business and allow small firms to grow and expand. Due to the important role small businesses play in job creation, providing small businesses with appropriate financing mechanisms, whether debt or equity, is critical to reducing unemployment. Our economy's growth depends on creating the right enabling environment for small businesses to start, grow, and thrive.

Finding ways to improve the flow of capital to small businesses across their life cycles, whether it is the equity they need to expand or the working capital loans to manage inventories, is essential. Since taking office, this Administration has used an array of tools to support small business access to capital.

During the financial crisis, the Capital Purchase Program (CPP), the Community Development Capital Initiative (CDCI), Temporary Asset-Backed Securities Loan Fund (TALF), and SBA 7(a) Securities Purchase Program were created to help stabilize the financial system. Some

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programs provided equity to banks to help ensure they could continue to serve their communities. Others helped support the securitization market for small business loans. Of the 791 banks CPP and CDCI programs invested in, 734 were small banks.

While the Bush Administration used $234 billion of its TARP authority to invest in banks and thrifts, with $165 billion alone invested in eight of the largest financial institutions, the Obama Administration broadened the reach of the program to invest across more and smaller financial institutions. By doing so, we helped stabilize financial institutions that provide critical access to credit in countless cities, rural areas, and communities across the country. Today, taxpayers have recovered more than 100 percent of the approximately $245 billion in total funds disbursed for TARP investments in banks (inclusive of dividends, interest and other income).

But we knew capital infusion at banks and secondary market supports alone would not be enough. So we temporarily increased loan guarantees and decreased fees at the Small Business Administration's 7(a) and 504 loan guarantee programs in both the Recovery Act and the Jobs Act, which supported $42 billion in lending to small businesses. The Jobs Act also permanently increased SBA loan limits, which supported over $2.6 billion in loans that otherwise would not have been awarded within the first three months of the increase.

While TARP programs helped stabilize banks, the reach of the program was limited by the stigma that became associated with it. We continued to look for tools that could help small banks, since small businesses are overwhelmingly reliant on banks for access to capital. So we worked with Congress to pass the Jobs Act and create two key Treasury programs – the State Small Business Credit Initiative (SSBCI) and the Small Business Lending Fund (SBLF) – designed to increase lending to small businesses around the country. Congress designed these programs as public-private partnerships that leverage the resources of the government with the local knowledge of the community banks and state programs they are designed to support.

As a result of the recession and ensuing state budget shortfalls, many innovative and effective small business programs at the state level have been scaled back, which, in turn, has posed further challenges to small businesses seeking new capital. The State Small Business Credit Initiative allocates $1.5 billion to new and existing state programs that support lending to small businesses and small manufacturers, including capital access, collateral support, loan guarantee and state-run venture capital programs. These funds are expected to leverage up to $15 billion in small business lending—ten times the amount of program funds.

Forty eight states, the District of Columbia, and all five territories have notified Treasury that they intend to apply to participate in the SSBCI. We have already received 27 applications from states requesting funds that could collectively leverage over $8.8 billion in small business lending. Of the $1.5 billion in SSBCI funds available, Treasury has already approved $436 million in allocations to ten states. Approved state programs in California ($169 million in allocated SSBCI funds) and North Carolina ($46 million) have already began using SSBCI funding to increase lending to small businesses in those states, while other states have begun establishing pipelines of loans now that funds are available. Missouri's ($27 million) state run venture capital fund, for example, has already received applications from small businesses

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seeking more than $60 million in new investments from the program, exceeding initial forecasts for participation in the fund.

Treasury's Small Business Lending Fund, established alongside the State Small Business Credit Initiative, promotes lending to small businesses among community banks with assets of less than $10 billion. The program provides capital to participating banks through Treasury purchases of preferred stock or debt instruments from each bank. Since banks leverage their capital, the SBLF could help increase lending to small businesses in an amount that is multiples of the total capital provided to participating banks, helping small businesses in their communities to expand and create new jobs.

The dividend or interest rate banks pay to Treasury on SBLF funding also helps incent them to lend to qualified small businesses in need of financing. Under the Jobs Act, the rate will be reduced as a bank increases its small business lending. The initial rate will be, at most, 5 percent, but if a bank's small business lending increases by 10 percent or more, then the rate falls as low as 1 percent. Banks that increase their lending by less than 10 percent can pay rates between 2 percent and 4 percent. If a bank's lending does not increase in the first two years, however, the rate will increase to 7 percent, and after 4.5 years total, the rate will increase to 9 percent (if the bank has not already repaid the SBLF funding). The Jobs Act therefore establishes a clear metric for measuring changes in lending after financial institutions begin participating in SBLF, and helps ensure the program's benefits only go to banks that use capital to extend additional credit to small businesses.

To date, SBLF has received 869 applications and total requests for $11.6 billion in funding. We have begun notifying banks that have been approved for the program, and expect to begin providing capital very soon.

Three-hundred million dollars of SBLF funding is designated for investments into non-profit loan funds that the Treasury Department has certified as Community Development Financial Institutions (CDFIs), which deliver products and services to communities not adequately served by the mainstream financial services sector. These CDFIs will receive equity-like investments; therefore we anticipate that they will further leverage Treasury's investment by raising private debt capital against Treasury's equity-like capital. The investments will have an annual dividend payment of 2 percent in each of the first eight years of the investment, and 9 percent in each of years 9 and 10, assuming the CDFI does not repay the investment before then. The favorable rates and terms of this investment will help ensure that CDFIs participating in the program have the capital available for investments in small businesses in the communities and neighborhoods they serve.

CDFIs play a critical role in providing financial products and services to some of the most distressed communities in the country. CDFIs engage in a wide variety of activities, including providing microloans to entrepreneurs, mezzanine debt to growing small businesses, and financing to develop community facilities like charter schools and health clinics.

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The CDFI Fund[1] is undertaking several initiatives to support small businesses, including launching a new capacity building initiative that will expand technical assistance and training opportunities for CDFIs across the country so that they may better engage in small business lending. It also has worked with the SBA to expand their 7(a) loan program to CDFIs with experience lending to small businesses. In February, the SBA launched the Community Advantage Program permitting CDFIs and non-profit lenders to apply for authority to issue government-guaranteed 7(a) loans of up to $250,000. These smaller dollar loans will help support small business formation and growth in underserved communities.

The CDFI Fund also administers the New Markets Tax Credit (NMTC) Program. To date, the CDFI Fund has allocated tax credit authority that would support $29.5 billion of private sector investments into businesses and real estate projects in some of the Nation's most distressed communities. Over $21 billion in NMTC funds have already been invested in low-income communities, with an estimated one third of those dollars invested in businesses and two thirds invested in real estate projects.

This month, the IRS proposed significant and important regulatory reforms to the NMTC that will help more operating businesses take advantage of the credit. The proposed changes grew out of a roundtable I held in Durham, North Carolina last year to find ways to improve the NMTC. The reforms IRS has proposed would help drive additional investment to operating businesses to bring more balance to the investments benefiting from the program.

Maximizing Small Business Contracting Opportunities

The Administration has refocused efforts to increase contracting opportunities for small businesses, creating new jobs and helping to drive the economy forward. Three decades ago, Congress set a 23 percent goal for the portion of annual federal contracting dollars for small businesses, along with subgoals for small businesses owned by women, socially or economically disadvantaged individuals, service-disabled veterans, and small businesses located in Historically Underutilized Business (HUB) zones. Since 2006, the Federal government has missed its annual small business contracting goal and most of the subgoals.

In April 2010, the President created an Interagency Task Force on Federal Contracting Opportunities for Small Businesses to help ensure contracting opportunities between the Federal government and small businesses are maximized. In September, the Task Force laid out three core objectives to help close the gap and reach our goals: strengthening and updating policies that help provide contracting opportunities, and create new ones where they are lacking; increasing the knowledge base and efficiency level of the procurement workforce and providing appropriate incentives and accountability for agencies to meet small business goals; and easier access to procurement information and improving accuracy of procurement data. The Task

[1] The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions.

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Force made a variety of common-sense recommendations to meet these objectives that the SBA is working to implement.

We have made progress. Over the last two years, the Federal government has bought nearly $200 billion worth of goods and services from small businesses. Last year, we awarded higher dollar amounts for small businesses overall—as well as for women, veterans, and other small business subgroups for which we have annual goals. And in the Recovery Act, nearly a third of all Federal contracting dollars went to small businesses.

The Dodd Frank Wall Street Reform and Consumer Protection Act (DFA) also highlights our attention on Federal contracting opportunities for small businesses. Section 342 of DFA created Offices of Minority and Women Inclusion (OMWIs) in the Department of the Treasury headquarters and all Federal financial regulatory agencies. The OMWIs will monitor how each agency's policies and regulations affect minority-owned and women-owned businesses, and are required to develop procedures to ensure, to the maximum extent practicable, the fair inclusion of minority-owned and women-owned businesses in all activities of the agency, including procurement and all types of government contracts and subcontracts. The establishment of OMWIs is an important milestone for ensuring fair inclusion and opportunities for small financial firms owned by minorities and women, and for evaluating how financial regulatory policies may affect such small business in the economy.

The Administration will continue its efforts to leverage the creativity, innovation, and expertise of small businesses through expanding opportunities for them to benefit from Federal contracts.

Increasing Exports from Small Businesses

In January 2010, the President announced the National Export Initiative (NEI) to help double U.S. exports over five years. The NEI places a priority on supporting small businesses, which face unique challenges ranging from insufficient knowledge of foreign markets to fewer resources to address trade barriers to accessing credit. In the first year of NEI, the U.S. exported $1.83 trillion in goods and services supporting 10.3 million jobs. U.S. exports of goods and services in 2010 increased nearly 17 percent over 2009—the largest year-to-year percentage change in over 20 years. This puts us on pace to achieve President Obama's goal of doubling exports by the end of 2014.

A number of initiatives and programs target small businesses' difficulties accessing the export market. In FY 2010, the Department of Commerce coordinated 36 trade missions to 32 countries with $2 billion in anticipated export success. Small businesses represented four out of five of all trade mission participants from 2008 to 2010. The Department of Commerce's International Buyer Program recruited nearly 13,000 foreign buyers in FY 2010 to visit major U.S. trade shows to meet with U.S. companies, many of which are small businesses that cannot afford to travel overseas, and facilitated approximately $865 million in export successes. Small businesses accounted for 78 percent of the total number of export successes.

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Since the start of the NEI, the Department of Commerce's, Trade Agreements Compliance Program has initiated 139 investigations of foreign trade barriers affecting small business, and successfully resolved 48. Through this program, the Department has worked with other U.S. Government agencies to help U.S. businesses overcome trade barriers, including IPR problems, by working to remove the foreign government impediments to U.S. exports.

The Export-Import Bank, an important source of support and knowledge of foreign export markets for small business, generated $5 billion in authorizations for small businesses, up from $3.2 in 2008. In January 2011, as part of NEI and in partnership with the Commerce Department, U.S. Trade Representative, Small Business Administration, U.S. Chamber of Commerce, National Association of Manufacturers, and several lenders, the Export-Import Bank launched a new initiative called Global Access for Small Businesses. The program's goal is to increase the number of small businesses that export goods and services to create jobs, and it aims to reach $9 billion in annual small business export financing, add 5,000 small businesses to its portfolio, and cumulatively approve $30 billion in transactions to small businesses.

The Jobs Act also provides for increased SBA support for small business exports. The law made the Export Express pilot loan program a permanent program, with 90 percent guarantees for loans up to $350,000 and 75 percent for loans up to $500,000; increased the maximum loan sizes for Export Working Capital Program and International Trade Loans to $5 million; and provides $30 million annually for the next two years in competitive grants for states to help small business owners expand their exports.

We are also committed to expeditious approval of the three pending trade agreements with Korea, Colombia and Panama, along with renewal of a strong and robust Trade Adjustment Assistance (TAA) program. The Administration is also actively pursuing a strong trade agenda that will benefit small business and support and create good jobs for American workers, by working with Congress to move forward the pending trade agreements with Korea, Colombia, and Panama, and to renew a strong and robust TAA Program that supports Americans who need training and other services when their jobs are affected by trade.

Encouraging High-Growth Small Businesses

The majority of new jobs are created by start-ups and small businesses capable of high-growth and innovation. According to a recent report by the Kaufman Foundation, half of the companies on the 2009 Fortune 500 list were launched during a recession or bear market, along with nearly half of the firms on the 2008 Inc. list of America's fastest-growing companies. Given their job creation potential and importance to the economy, our efforts have been closely focused on fostering this group of small businesses.

In March, Treasury co-hosted a conference called "Access to Capital: Fostering Growth and Innovation for Small Companies" to examine challenges facing start-ups and high-growth companies, identify barriers to their success, and find new ways for the private sector and public sector to cooperate. The conference convened policymakers, business leaders, entrepreneurs, and academics to discuss new ideas, such as the Administration's proposal to permanently

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eliminate the capital gains tax on small business stock. These ideas will be important in helping small businesses overcome hurdles, particularly in an environment where credit is constrained, to build a more competitive economy over the long term.

The President's Council on Jobs and Competitiveness, created in January 2011, has brought together leading American business, labor, and academic leaders to offer forward-thinking ideas to quicken the pace of job growth and make sure our economy and our workers can adapt to changing times. At the same time, the President has issued a call to action to the private sector to promote high-growth entrepreneurship. In response, an alliance of entrepreneurs, foundations, corporations, and nonprofits has launched the Startup America Partnership, an independent entity delivering strategic and substantive resources to help entrepreneurs start and scale companies, accelerate technology commercialization, and support entrepreneurial education and mentoring programs.

In the few months since its launch, the Startup America Partnership has already announced more than $400 million in private-sector commitments to provide products, services, mentorship and funding directly to entrepreneurs across the country. Partners in this effort to scale and grow tens of thousands of U.S. startups include American Express, Google, Microsoft, HP, and many others. In early June, the Administration and the Startup America Partnership held a youth entrepreneurship conference in New York City and an urban entrepreneurship summit in New Jersey to educate attendees about the resources, products and services available. The Partnership plans to conduct similar events around the nation.

The Startup America Partnership is also building a network of state and local resources for entrepreneurs, beginning with the launch of Startup Illinois just a few weeks ago. These entrepreneur-led Startup Regions will continue to expand throughout the country, building up the entrepreneurial ecosystems that support startup success and job creation.

Part of Startup America's program takes a fresh look at the regulations to which startups are subject to help streamline requirements and remove unnecessary barriers. This effort is aligned with a government-wide plan to update the regulatory system so it protects the public welfare – while most efficiently promoting economic growth, innovation, competitiveness, and job creation. The President has called for an unprecedented review of regulations across government that has led over two dozen agencies to identify initiatives to reduce burdens, including those on America's small businesses.

When President Obama signed the Small Business Jobs Act last September, he said:

"Government can't guarantee success, but it can knock down barriers to success, like the lack of affordable credit. Government can't create jobs to replace the millions that we lost in the recession, but it can create the conditions for small businesses to hire more people, through steps like tax breaks."

Embargoed Until Delivery

Some of the measures I outlined today are designed to help address the immediate difficulties that the recession placed on the shoulders of small businesses. Others are designed to support the leading role they have long played in our country's economic strength and our entrepreneurial spirit. All of them are complemented by the wide-ranging reforms to the financial system we are currently implementing to help make sure small businesses can reap the benefits from an American economy that is stronger, safer, and more resilient than in the past.

We will continue to examine and explore other opportunities to support small businesses and the recovery more broadly. As we continue fiscal reform negotiations with Congress, our objective will remain a bipartisan consensus on a comprehensive, balanced plan. But that plan must be good for the economy both in the near-term and in the years and decades to come. Any agreement must both preserve the recovery now, while reinforcing the foundations for economic growth in the future.

Let me thank you again for your time and the opportunity to speak with you today. I look forward to working with you in pursuit of our shared goals on behalf of this country's small businesses.

Questions for the Record
Treasury Secretary Timothy F. Geithner
Committee on Small Business Hearing entitled
"The State of Small Business Access to Capital and Credit:
The View from Secretary Geithner"
June 22, 2011

Questions from Chairman Sam Graves

Q: Pursuant to Section 1100G of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Director of the Consumer Financial Protection Bureau (CFPB) is required to assess the effects of its rules on the cost of credit to small businesses. If a director is not appointed by July 21, 2011, the CFPB will commence operation under your authority. What plans do you have to ensure that the requirement to examine the impact of credit availability on small businesses in Section 1100G will be carried out? In addition, assuming that a Director is in place, what specific plans exist to ensure that the Director will assess the impact of CFPB's regulations on small business availability of credit?

A: Under Section 1100G of the Dodd-Frank Act, whenever the Bureau is required to publish an initial regulatory flexibility analysis, the Bureau must include in the analysis a description of any projected increase in the cost of credit for small entities. The Bureau is hiring economists and analysts who will prepare initial regulatory flexibility analyses. In the absence of a Director, any Bureau rulemakings performed under the authority of the Treasury Secretary following July 21, 2011, will adhere to section 1100G's requirements. Once a Director is in place, the Director and senior Bureau officials will be responsible for ensuring that the appropriate procedures are followed in order to achieve compliance with these requirements.

THE SMALL BUSINESS AGENDA

Growing America's Small Businesses
To Win the Future

National Economic Council

MAY 2011

THE WHITE HOUSE
WASHINGTON

Introduction

This report focuses on the vital role that America's entrepreneurs and small business owners play in strengthening the U.S. economy. The Obama Administration has put new initiatives and increased incentives in place to support small businesses – including seventeen tax cuts, improved access to capital and expanded support for high growth businesses – as they continue to out-compete, and out-innovate the rest of the world.

Over the past two and a half years, President Obama has enacted sweeping changes to support, reinvest, and revitalize America's economy in the wake of a major recession. As a result, large U.S. firms are now making powerful new investments, including building new facilities and buying new equipment.

With regards to job creation, however, we know that America's small businesses pack the biggest punch, creating two out of every three new jobs in the U.S. each year. These small businesses are the cornerstone of our communities. They are the source of pride for working families. And, every day, we see America's entrepreneurs continue to step out and take risks with new ideas in order to help us win the future.

This report details the many investments this Administration has made since January 2009 to support small businesses, investments that include: expanding access to capital, supporting startups and high-growth firms, training America's workforce, reducing barriers to entrepreneurship, increasing small business exports, and much more.

On that note, we would like to thank the following agencies for their contributions in preparing this report: the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Department of Defense, the U.S. Department of Health and Human Services, the U.S. Department of Homeland Security, the U.S. Department of Labor, the U.S. Department of the Treasury, the U.S. Department of Veterans Affairs, the Export-Import Bank of the United States, the General Services Administration, the National Aeronautics and Space Administration, the National Science Foundation, and the U.S. Small Business Administration.

More than ever, we are all committed to supporting entrepreneurs and small businesses as they create jobs and strengthen America's economy in the 21st century.

Gene B. Sperling	Karen G. Mills
The National Economic Council	U.S. Small Business Administration

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Executive Summary

Small businesses are the engine of the American economy, having created 64 percent of new American private sector jobs generated in the past 15 years—**that's 40 million net new jobs** according to the Council of Economic Advisers. Recognizing this critical role that small businesses play in the U.S. economy, President Obama is committed to ensuring that small businesses continue to receive the tools and resources they need to address the challenges they face. These initiatives offer support to small businesses so they are able to bring the power of their ideas to the marketplace in ways that can catalyze and transform our economy, creating jobs through new innovations in products and services.

Since taking office in January 2009, President Obama has made enormous strides in supporting U.S. small businesses. Going forward, the Administration continues to champion our nation's vital small business resources. The Administration continues to emphasize serving all U.S. small businesses while placing additional focus on historically underserved communities including, minorities, women, veterans, and businesses in economically disadvantaged areas.

Small businesses encompass a wide swath of America—from "mom and pop" Main Street stores to young innovators dreaming of the next new Google. At the core of every small business is the entrepreneur. These entrepreneurs need the tools to make their dreams come true for they are the source of America's competitive advantage—to inspire and empower an ever greater diversity of communities and individuals to build great American companies.

Over the past two and a half years, the President and agencies across the Executive Branch have worked to implement policies and programs to help small businesses bridge the capital and market gap and encouraged public-private partnerships to support workforce re-training and entrepreneurship by:

- Supporting more than $53 billion in SBA loan guarantees to more than 113,000 small businesses;

- Awarding more than $221 billion in Federal contracts to small businesses (FY 2009 through April 30, 2011);

- Providing counseling, through SBA resource partners and other agencies, to more than 2 million entrepreneurs and small business owners;

- Awarding more than $4.5 billion in research funding through the Small Business Innovation and Research Program during FY 2009 and FY 2010; and

- Streamlining Federal programs to help small businesses such as the Department of Defense's recent announcement to reduce the time to pay its small business vendors from 30 days to 20 days—which will impact more than $60 billion of goods and services it purchases from small businesses.

The Administration's small business initiatives have been accomplished through the tireless efforts of the Executive Agencies of the Executive Branch, as well as through an ambitious legislative agenda. The capstone of this continuing support was the *Small Business Jobs Act of 2010* signed in September 2010, which is the most significant piece of legislation to help small businesses in over a decade.

Over the past two and a half years, the Administration has accomplished much in support of small businesses as set forth in this report, including:

I. **Expanded Small Business Tax Breaks**
II. **Improved Access to Capital**
III. **Augmented Federal Contracting Opportunities**
IV. **Increased U.S. Exports through the National Export Initiative**
V. **Enhanced Entrepreneurial Development and Education Opportunities**
VI. **Heightened Innovation and High Growth support**
VII. **Strengthened Small Business Protection**

This is the first time an administration has prepared a comprehensive report that covers small business efforts across the Federal Government. This report was prepared with input from the following agencies: the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Department of Defense, the U.S. Department of Health and Human Services, the U.S. Department of Homeland Security, the U.S. Department of Labor, the U.S. Department of the Treasury, the U.S. Department of Veterans Affairs, the Export-Import Bank of the United States, the General Services Administration, the National Aeronautics and Space Administration, the National Science Foundation, and the Small Business Administration.

I. Small Business Tax Breaks

Legislation Committed to Supporting Small Businesses. The Administration is committed to providing small businesses key support through a series of tax breaks that combine increased capital, as well as providing key incentives for small business investment and growth. To date, the Administration has supported 17 direct tax breaks that support small business growth. For further information on tax breaks for small businesses, please visit **www.sba.gov/content/fact-sheet-tax-breaks-small-businesses.**

- **From the American Recovery & Reinvestment Act (ARRA) Act, the Hiring Incentives to Restore Employment (HIRE) Acts, and the Affordable Care Act:**

1. **A New Small Business Healthcare Tax Credit.** Starting retroactively to January 1, 2010, a new small business health care tax credit is in effect that covers up to 35 percent of healthcare premiums, with the top rate increasing to 50 percent in 2014. The IRS has notified over 4 million small businesses could be eligible for this tax credit, and small business owners can now find information on how to apply for a tax credit on the Department of Health and Human Services' (HSS) website; available here: **http://www.healthcare.gov/foryou/small/index.html.** Altogether, the Affordable Care Act invests $40 billion over the next decade in tax credits that enable small businesses to invest, compete, and hire more workers.

2. **A New Tax Credit for Hiring Unemployed Workers.** This credit could provide up to $10.4 billion in tax relief for businesses that hired recently unemployed workers by providing a tax credit equal to $1,000 for each eligible employee through 2010 who was retained for more than one year.

> About 4 million small businesses could be eligible for new healthcare tax credits if they provide health insurance. This includes Niedlov's Breadworks in Chattanooga, Tenn. Niedlov's owners, John and Angela Sweet have always wanted to provide health insurance to their employees. "It's something that I feel would make us a better employer and a more complete business," John said. When Congress passed the Affordable Care Act, John took a look at his options and studied the new tax credits. He decided that now was the time to provide health insurance to his full-time employees. "It won't be cost free, but it won't cost too much," John said, adding that even if it's only for a handful of people, it's important that, as a small business owner, he's able to provide benefits for his employees.

3. **Bonus Depreciation Tax Incentives to Support New Investment.** In 2008 and 2009, small businesses were able to recover the costs of capital expenditures faster than the ordinary schedule, by depreciating 50 percent of the cost in the first year.

4. **75 percent Exclusion of Small Business Capital Gains.** Under the Recovery Act, 75 percent of capital gains from certain small business stock (up from 50 percent) can be

excluded from taxes if the stock is acquired after February 17, 2009 and before January 2011, and held for more than five years.

5. **Expansion of Limits on Small Business Expensing.** The Section 179 deduction enables small businesses to deduct up to $250,000 of the cost of machinery, equipment, vehicles, furniture and other qualifying property placed in service during 2009. The limit would have been $133,000 without the extension in the ARRA.

6. **Five-Year Carryback of Net Operating Losses.** Small businesses with deductions exceeding their income in 2008 were able to use a new net operating loss tax provision to get a refund of taxes paid in prior years. This provision enables small businesses with a net operating loss (NOL) in 2008 to elect to offset this loss against income earned in up to five prior years. Typically, an NOL can be carried back for only two years.

7. **Reduction of the Built-In Gains Holding Period for Small Businesses from 10 to 7 to Allow Small Business Greater Flexibility in Their Investments.**

8. **Temporary Small Business Estimated Tax Payment Relief to Allow Small Businesses to Keep Needed Cash on Hand.**

- **From the Small Business Jobs Act:**

9. **Zero Taxes on Capital Gains from Key Small Business Investments.** Under the Recovery Act, 75 percent of capital gains from certain small business investments were excluded from taxes in 2009 and 2010. The Jobs Act temporarily eliminated these taxes altogether in 2010, providing an immediate incentive for increased investments in small businesses.

10. **The Highest Small Business Expensing Limit Ever– Up to $500,000.** Building on provisions in the Recovery Act and HIRE Act, the Small Business Jobs Act increased the amount of investments small businesses could immediately write off in 2010 and 2011 to $500,000 for qualifying investments and raised the total phase out limit to $2 million, providing an immediate tax incentive for them to expand and create new jobs.

11. **An Extension of 50% Bonus Depreciation.** The Jobs Act extended, as the President proposed in his FY 2011 Budget, a 50 percent "bonus depreciation" provision that encourages businesses to invest in plants and equipment by accelerating the rate at which they can deduct capital expenditures.

12. **A New Deduction for Healthcare Expenses for the Self-Employed.** Building on the Affordable Care Act, the jobs bill allows self-employed entrepreneurs to deduct the cost of health insurance in 2010 for themselves and their family members in calculating their

self-employment taxes, providing a significant tax cut this year for entrepreneurs purchasing health insurance for themselves and their families.

13. **Tax Relief and Simplification for Cell Phone Deductions.** The Small Business Jobs Act changed tax rules to simplify deductions for business cell phones—making it easier for small business owners to receive deductions that they are entitled to without burdensome documentation.

14. **An Increase in the Deduction for Entrepreneurs' Start-Up Expenses.** The Small Business Jobs Act temporarily increased the amount of start-up expenditures entrepreneurs can deduct from their taxes from $5,000 to $10,000, offering an immediate incentive for aspiring entrepreneurs to invest in starting up a new small business.

15. **A Five-Year Carryback of General Business Credits.** Building on temporary Recovery Act measures, the Small Business Jobs Act allowed certain small businesses to "carry back" their general business credits to offset five years of taxes—providing them with an instant tax break—while also allowing these credits to offset the Alternative Minimum Tax, reducing taxes for these small businesses.

16. **Limitations on Penalties for Errors in Tax Reporting That Disproportionately Affect Small Business.** The bill changed, beginning in 2010, the penalty for failing to report certain tax transactions from a fixed dollar amount—which was criticized for imposing a disproportionately large penalty on small businesses in certain circumstances—to a percentage of the tax benefits from the transaction.

- **And from the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act:**

17. **100 Percent Expensing.** The agreement includes the President's proposal—made effective September 8, 2010—to temporarily allow businesses to expense 100 percent of their investments in the last quarter of 2010 and in all of 2011, potentially generating more than $50 billion in additional investment in 2011, which will fuel job creation.

Simplifying Tax Credits. The Treasury Department is working on a set of regulatory reforms to the existing New Markets Tax Credit, which the Administration is proposing to expand from $3.5 billion for 2011 to $5 billion for 2012 in its FY 2012 Budget proposal. These reforms will make it easier for community development entities to attract private sector funds for investment in startups and small businesses operating in lower-income communities. The reforms, which are expected to go into effect later this year, will relax the reinvestment requirements for community development entities investing in certain operating businesses.

II. Improved Access to Capital

Enhanced Lending Practices. America's preeminence in generating innovative new companies depends on open and well-functioning credit and capital markets. During the financial crisis and recession access to capital dried up, particularly for small firms. As our economy recovers, some small businesses have continued to struggle to access capital to maintain operations or grow. The Administration has been focused on addressing these shortfalls and barriers since taking office. Through new legislation and initiatives, the Obama Administration has achieved enhanced lending practices for small businesses. Now, agencies and private lenders can meet small businesses' needs better than ever, with improved loan turnaround times, more points of access, increased loan volumes, and increased loan sizes.

> **Total Number of SBA Loans Made to More than 113,000 Small Businesses**
>
> From January 2009 to April 2011, SBA has supported more than $55.6 billion in lending to more than 113,000 small businesses, including more than $42 billion in loans with reduced fees and higher guarantees made possible through the American Recovery & Reinvestment Act and the Small Business Jobs Act.

- **Significantly Increased Small Business Administration (SBA) Small Business Loan Volumes.**
  - **Recovery Act Loans.** The Recovery Act implemented reduced fees for SBA's two largest loan programs, 7(a) and 504, and also raised the guarantees on SBA's 7(a) loan program. These loan enhancements engineered a significant turnaround in SBA lending at a critical time. As of September 30, 2010 SBA approved $22.6 billion in Recovery Act loan guarantees, which supported $30.4 billion in lending to small businesses. From February 17, 2009 to September 30, 2010, weekly SBA loan dollar volumes rose more than 90 percent in the 7(a) and 504 programs, compared to the weeks preceding ARRA's passage. Overall, more than 70,000 small businesses received SBA loans with Recovery Act enhancements.
  - **Small Business Jobs Act.** Following the passage of the Small Business Jobs Act of 2010 in September, which extended 7(a) and 504 loan enhancements, weekly loan volumes rose and reached a high of approximately $2.2 billion. This represents the highest weekly lending level since the SBA began tracking weekly loan volumes. As of December 31, 2010 SBA approved more than $10 billion in Jobs Act loan guarantees, which supported more than $12 billion in lending to small businesses. Since enactment of the Jobs Act, SBA 7(a) and 504 programs have assisted more than 19,000 small businesses in FY 2011.
  - **Loans to Minorities, Veterans, and Women.** From January 2009 to April 2011, SBA has supported approximately 28,000 minority-owned businesses with more than $10.33 billion in lending support, approximately 10,000 veteran-owned businesses with almost

$2.5 billion in lending support, and approximately 25,000 women-owned businesses with more than $5.76 billion in lending support.

- **Increased Points of Access.** Central to the turnaround in SBA lending has been increased outreach to, and participation by, lending partners across the United States. As a result, SBA has helped increase the points through which small businesses can access SBA loan programs. In FY 2010, more than 3,000 financial institutions made a 7(a) loan, a 27 percent increase since FY 2008, including nearly 1,300 lenders that had not made an SBA loan since FY 2007.

> In 2002, Rob Hatch and his wife Tara founded Anemometry Specialists in Alta, Iowa, which provides wind resources assessment for wind farms. Many lenders had not yet realized the economic potential of wind energy in Iowa, so Rob and Tara financed the company on their credit cards. In 2009 a $70,000 SBA loan made possible by the Recovery Act helped Rob and Tara continue to expand the company. They expect the expansion to add an additional five jobs in 2011.

- **Expanded SBA Loan Sizes.** The Jobs Act fulfilled the President's pledge to permanently increase SBA loan limits, helping ensure that small businesses that are in a position to expand and create jobs have access to the capital they need. The Jobs Act increased the maximum 7(a) loan size from $2 million to $5 million, increased the maximum 504 loan size from $2 million to $5 million for regular projects and from $4 million to $5.5 million for manufacturing projects, and increased the maximum Microloan size from $35,000 to $50,000. The Jobs Act also temporarily increased working capital loans from $350,000 to $1 million. In the first three months, these expansions supported over 1,200 loans totaling over $2.6 billion in loans that previously wouldn't have been awarded.

- **Support for Small Business Commercial Real Estate.** The President called for and signed into law a key program that will help small business owners refinance their existing owner-occupied commercial real estate loans through SBA-guaranteed programs (the 504 Refinance Program). This program will help small business owners who are current on their mortgage payments but whose banks might not reset the terms of their loans and who thus face balloon payments. This program is currently being implemented and will provide up to $15 billion in lending support over two years. Allowing access to SBA guaranteed mortgage refinancing options will help businesses avoid foreclosure, keep their doors open and save hundreds of thousands of jobs.

> In Cleveland, Ohio, Miceli Dairy Products plans to break ground on a $16 million to $20 million expansion of its operation that will add 60 workers to its 138-employee work force within five years.
>
> Those plans became a reality when the company was approved for a $5.49 million 504 loan. The loan is one of the largest in the program's history, and was made possible by new provisions in the Small Business Jobs Act.

- **Provide Small Businesses with Access to Credit.** In his FY 2012 budget, the President proposes $165 million to support more than $15 billion in additional 7(a) loan guarantees that will help small businesses operate and expand in the coming year. The President's Budget also supports measures to strengthen financing programs for small business owner-occupied commercial real estate and equipment through Certified Development Companies; leverages early-stage mezzanine investment financing through Small Business Investment Companies; and provides Microloan funding to emerging entrepreneurs through non-profit intermediaries.

- **Export Import Bank of the United States (Ex-Im).** Following the credit crisis of 2008, substantial segments of the small business export sector were abandoned by the private sector. Chief causes could be found in the retreat from trade credit insurance by major insurers, the rising operating cost of lending for banks, and the prospects of higher credit losses. In response, Ex-Im has created a new program for the small business exporter.

  - **Reinsurance.** During 2010, Ex-Im negotiated a $75 million reinsurance agreement with a major insurer who had increased the minimum size of allowable transactions and exited several foreign markets. Ex-Im is negotiating reinsurance deals with three additional insurers to make sure that future market volatility does not leave U.S small businesses without coverage.

> Planson International (New Gloucester, ME) is a woman-owned small business that exports Dell computers, software, and accessories to developing countries under UN, USAID, and NGO contracts, specifically for aid, humanitarian and development projects. The company uses a $1.5 million working capital guaranteed line of credit with Bank of America.
>
> Planson received a $3 million contract with the UN Development Program and Sudan to supply equipment for the January 2011 referendum. However, as the exports were destined for Sudan, Ex-Im Bank was prohibited from providing its guarantee for the financing due to sanctions under Section 908 of the Trade Sanctions Reform and Export Enhancement Act. Ex-Im Bank staff worked with the State Department and the White House in obtaining a Presidential Waiver, signed by President Obama on November 19, 2010, which permitted the transaction to go forward.

- **Creating a New Small Business Lending Fund (SBLF) to Support Community Banks Lending to Small Businesses.** The President requested a new Small Business Lending Fund that was enacted in the Small Business Jobs Act. This created a $30 billion initiative that encourages lending to small businesses by providing low cost capital to qualified community banks with assets of less than $10 billion. Through the SBLF, community banks and small businesses can work together to help create jobs and promote economic growth in local communities across the nation. The program provides community banks with an incentive to expand loans to small businesses. The largest incentives will go to banks that do the most to increase their lending—rewarding performance, not promises. Treasury recently began accepting applications, and all SBLF investments will be completed by September 27, 2011. To date, Treasury has received applications from over 250 institutions totaling more than $6 billion in funds requested. Treasury expects to complete initial funding under the program in the first quarter of FY 2012, and will continue thereafter to fund institutions on a rolling basis.

- **State Small Business Credit Initiative (SSBCI).** The SSBCI, which was funded with $1.5 billion from the Jobs Act, will support lending to small businesses and small manufacturers. SSBCI is expected to help spur at least $15 billion in lending to small businesses. Under SSBCI, participating states will use the Federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. SSBCI will allow states to build on successful models for state small business programs, including collateral support programs, Capital Access Programs (CAPs), loan participation programs, loan guarantee programs, and other innovative programs, such as state-sponsored venture capital programs. Existing and new state programs are eligible for support under the SSBCI. States are currently applying for program funds. To date the SSBCI has approved allocations to North Carolina ($46 million), Michigan ($79 million), California ($169 million), Connecticut ($133 million), Missouri ($269 million) and Vermont ($132 million). Please visit **www.treasury.gov/resource-center/sb-programs/Pages/ssbci.aspx** for more information.

Support for Underserved and Disaster-Afflicted Communities. The Administration is committed to developing economies and spurring entrepreneurs in all regions across the U.S.—through the good times and the bad. These programs are designed to aid those regions that need it most.

- **Community Development Capital Initiative (CDCI).** Treasury's Office of Financial Stability launched CDCI to provide low-cost capital to depository Community Development Financial Institutions (CDFIs), including banks, thrifts, and credit unions. CDFIs are an important source of credit for small businesses in underserved communities. The program was designed to recognize CDFIs' unique, mission-oriented focus and their success in reaching underserved communities. CDCI investments were made at a dividend rate of 2 percent. To encourage repayment, while recognizing the unique circumstances facing CDFIs, the dividend rate under CDCI is low initially and will gradually increase to 9 percent after eight years. CDCI completed funding on September 30, 2010. $570 million was disbursed to 84 financial institutions in 26 states, the District of Columbia, and Guam.

- **Community Development Financial Institutions (CDFI) Fund.** Through monetary awards and the allocation of tax credits, the CDFI Fund helps promote access to capital and local economic growth in urban and rural low-income communities across the nation. Through its various programs, the CDFI Fund enables locally-based organizations to further goals such as: economic development (job creation, business development, and commercial real estate development); affordable housing (housing development and homeownership); and community development financial services (provision of basic banking services to underserved communities and financial literacy training). In FY 2010, the Administration requested and secured enactment of an increase in the budget of the CDFI Fund to

$246,750,000 from $107 million the prior year. Many of the CDFIs are providing microenterprise loans, small business loans and loans to non-profits working in some of the country's most distressed communities. Additionally, the CDFI Fund modified its application and compliance requirements under the New Markets Tax Credit Program to encourage more investments of equity in businesses. Furthermore, through the new SBA Community Advantage program, CDFI's are now able to lend to small businesses through SBA's 7(a) program.

- **Support for Capital Directly to Underserved Communities.** SBA is committed to expanding access to capital for small businesses and entrepreneurs in underserved communities so that it can drive economic growth and job creation. SBA loans are three-to-five times more likely than conventional, non-guaranteed, small business loans to go to women- and minority-owned small businesses, according to the Urban Institute. Recent studies have also demonstrated that small loan amounts are particularly important to these businesses. Moreover, underserved communities have been hit disproportionately hard by the recession. In addition to SBA's already existing loan programs, SBA added two new initiatives that are aimed at increasing access to capital for businesses in these communities. The Urban Institute report is available at: **http://www.urban.org/UploadedPDF/411596_504_gap_analysis.pdf**.

  - **Small Loan Advantage.** Small Loan Advantage offers more than 600 Preferred Lenders, including many of the nation's largest lenders, the opportunity to put 7(a) loans of $250,000 and lower into the hands of small businesses and entrepreneurs through a streamlined application process, while also having the regular 7(a) Government guarantee of up to 85 percent. This will encourage increased availability of vital smaller dollar loans for small businesses in underserved communities.

  - **Community Advantage.** With the Community Advantage pilot, the agency will expand the points of access small business owners have for getting loans by opening this portion of SBA's 7(a) loan program to "mission-focused" financial institutions, including Community Development Financial Institutions, Certified Development Companies and non-profit microlending intermediaries for small dollar loans. The pilot offers the same streamlined application process and regular 7(a) guarantees as Small Loan Advantage and increases the number of available SBA guaranteed lenders focused on serving entrepreneurs in underserved communities.

- **SBA Council on Underserved Communities.** The agency's new Advisory Council on Underserved Communities, established in December 2010, consists of 20 members from across the country. Members will provide a critical link between SBA and small businesses in traditionally underserved communities. Members will reflect a variety of key sectors, including business owners, banking and finance, community development, nonprofit and academia.

- **Small Business Data Collection Initiative.** Limited collection of timely, relevant data on small business lending has made it difficult to isolate the recession's impact on small business access to credit and has made it more challenging to develop solutions to address problems that arise. As a result the SBA has taken a two pronged approach to Small Business Data Collection:

  - **Improved Data Advocacy.** The SBA has continually advocated for augmented data collection practices, much of which has been reflected in the Dodd-Frank Bill.

  - **Data Analysis.** The SBA continually aggregates and analyzes all available third-party small business data to best understand the market and key effects.

- **National Advisory Council for Minority Business Enterprises.** On November 3, 2010, U.S. Secretary of Commerce Gary Locke announced the members of the National Advisory Council for Minority Business Enterprises (NACMBE). This is the first Secretarial-level advisory council for minority-owned businesses in nearly 40 years. The Advisory Council will provide advice and recommendations to the Commerce Secretary on a broad range of policy issues affecting the minority business community as part of the Obama Administration's focus on creating new jobs and strengthening the U.S. economy. The Minority Business Development Agency (MBDA) hosted the inaugural meeting of the NACMBE on March 11, 2011.

- **Capital Support for Small Business in Declared Disasters.** SBA provides direct lending support in Federally declared disasters in the form of Economic Injury Disaster Loans and the deferment of existing loan balances. As of April 30, 2011, for FY 2010 and FY 2011 there had been 442 declared disasters and the SBA had provided $274,323,100 in support to 2,808 small businesses. USDA Rural Development's Business and Industry (B&I) Guaranteed Lending Program provided $57 million in lending support for businesses located in declared disaster areas in FY 2010.

- **Support during the Deepwater Horizon Initiative on the BP/ Gulf Coast Oil Spill.** Following the economic devastation of the BP / Gulf Coast oil spill, numerous Federal agencies leveraged their resource to support small businesses.

  - **Economic Solutions Team (EST).** The Economic Solutions Team, coordinated by EDA led over 20 assessment teams through the affected region to identify key issues. Furthermore, SBA chaired the small business working group of the EST, which provided key short-term and long-term recommendations for support, which ultimately included the roll-out of a Federal resource roadshow throughout the region

  - **MBDA.** The communities served by the MBDA were disproportionately affected by the catastrophic Gulf Coast oil spill. MBDA provided African-American, Cambodian, Hispanic, and Vietnamese fishermen and shrimpers with technical assistance in rebuilding their businesses. MBDA Business Centers located in the Gulf Coast region (Alabama, Louisiana and Mississippi) successfully hosted multiple town halls listening sessions throughout Louisiana and Mississippi, engaged various chambers of commerce (African-American, Asian and Hispanic), trade associations, and community leaders in addition to providing business development training in an effort to support the minority businesses, entrepreneurs and communities in all aspects of their recovery.

- **DOC Initiative on Haiti Reconstruction.** Since the first moments of the disaster, MBDA has assisted the Obama Administration in rallying international support for Haiti's recovery, specifically with targeted outreach to the Haitian diaspora and other minority entrepreneurs and businesses that could assist with the medium- to long-term reconstruction efforts in Haiti.

  - **MBDA Strategy.** In Partnership with the Department of State, MBDA developed a trade and investment initiative designed to support the rebuilding of the Haitian small- and medium-sized business community while promoting the competiveness of U.S. firms in Haiti reconstruction initiatives.

Increased Capital for Rural Businesses. The Obama Administration is committed to revitalizing growth across all sectors of America. This includes America's farmers and ranchers, a nationwide network of entrepreneurs and a vital part of the national economy.

- **Small Business Assistance to Farmers.** The Recovery Act provided immediate assistance to 2,875 producers who needed loans but were unable to obtain commercial credit from conventional lenders, including more than 600 socially disadvantaged producers and almost 1,200 beginning producers. These loans were used to purchase land, livestock, equipment, feed, seed, and supplies, or to construct buildings or make farm improvements, all of which spur growth in rural communities. In total, the Department of Agriculture's Farm Service Agency (FSA) issued nearly 37,000 loans in FY 2010, providing more than $5 billion in assistance, including $2.2 billion to 20,000 beginning or socially-disadvantaged producers combined. The Recovery Act also provided $800 million to farmers and ranchers whose operations were at risk due to lost crops as a result of natural disaster. In addition, the safety net provided by FSA offered farmers a range of tools to help them weather unforeseen periods of financial difficulty, such as a fixed base of minimum financial assistance for income certainty, emergency and disaster payments, stabilization assistance during seasonal cash flow slumps, and payments to transition to new types of crops or reserve land for conservation purposes. More than $11 billion was invested in FY

> In Louisiana, a $2.5 million B&I loan was used to restructure existing debt, purchase equipment, and provide working capital for a sausage and food products company.
>
> B&I guaranteed loan funds help to create 42 jobs and save 75 jobs, and expanded this business' market for link Cajun sausage, dressing mix, roux, and other Cajun culture products to a national market.

2010 to provide a safety net for this critical small business sector that serves American households.

- **The Department of Agriculture's Rural Business Service (RBS).** RBS programs directly support the financing of rural businesses, creating sustainable jobs and advancing economic development throughout rural America. USDA's Business and Industry Guaranteed Lending Program improves access to capital for America's rural businesses through providing lending support in partnership with both national and local community banks. Nearly $3 billion in lending support was delivered in FY 2010. In FY 2010, USDA Rural Development's Business programs included assistance in the B&I Program, which funded 1,030 projects for $2.9 billion.

> USDA provided A REAP loan guarantee to a company growing tomatoes year-round in a 25 acre greenhouse in Maine. The farm uses thermal blankets to reduce heat loss during Maine's cold winters. USDA funding assisted with the purchase of a 6 Megawatt biomass boiler system that replace 90 percent of the fossil fuel used with the old boiler system. The company also was able to expand its permanent work force from 95 to 225 jobs.
>
> In North Platte, Nebraska, Gary's Super Foods wanted to operate a new grocery store with greater energy efficiency. With the REAP loan guarantee, Rural Development was able to offer the lender an 85 percent guarantee on 50 percent of the total project costs as well as a 25 percent grant. Today, a heat reclaim system captures the heat from the store's refrigeration units and redistributes the heat through a duct work system to heat the building. Also, energy efficient T-12 lighting was installed. Since the opening of the store in early 2009, the business has realized a significant energy savings.

- **Rural Energy for America Program (REAP).** The REAP program provides loan guarantees and grants for a number of purposes that assist rural small businesses and agricultural producers with the cost of purchasing and installing renewable energy systems and energy efficiency improvements. The program can result in the creation of enough electricity to fuel an entire farm operation with enough left over to sell back to the grid- creating income in rural areas and helping to clean the environment. In FY 2010 REAP provided $83,926,976 in grants that saved or created 1,996 jobs, while assisting 2,417 small businesses. REAP also provided $72,998,504 in loans that assisted 382 small businesses.

> In Adams County, Iowa, the RBEG program was used to help capitalize a rural revolving loan fund. Using its 2007 award of $89,004, the fund assisted 3 businesses, created 5 jobs and saved 32 jobs. In 2008, a second grant of $95,000 provided more capital for the fund. The plan included assisting a similar number of businesses and creating and retaining more jobs. In a county with a population of about 4,000 people, the 2007 activity on this funding amounted to increasing employment by 1 quarter of 1 percent.
>
> In New Lebanon, Tennessee, a new culinary center was opened with help from the USDA. The 2,400-square-foot commercial kitchen and storage space opened early this year. Built from RBEG grants from the USDA and the Tennessee Agriculture Enhancement Program, the center is designed to help area small-business owners have a sanitary, affordable venue for mass-producing their products. The culinary center is intended to also provide a spot for local farmers with a surplus who want to make jams or sauces, and for students to learn about entrepreneurship and the business of culinary arts.

- **Rural Business Enterprise Grant (RBEG) Program.** The RBEG program facilitates development of small and emerging private rural business enterprises through flexible loan and grant authority to assist small businesses with their specific needs.

- **Memorandum of Understanding (MOU) between SBA and USDA.** The two agencies executed an MOU in April 2010 to encourage sustainable growth and development for rural businesses. Key elements of the agreement aim to improve coordination in the delivery and development of programs, improve opportunities for small businesses to start and grow, and increase the volume of business loans guaranteed by USDA Rural Development and SBA, all directly helping to increase capital to rural America.

New and Strengthened Development Programs. In order to provide small businesses with access to capital that they need to thrive, the Obama Administration has implemented new programs which allow innovative small businesses to further develop. These programs are particularly essential for small businesses in emerging sectors.

- **The Economic Development Administration (EDA).** EDA plays a leading role in the Federal economic development agenda by promoting competitive ecosystems for entrepreneurship and innovation through its Office of Innovation and Entrepreneurship (OIE), and preparing American regions for growth and success in the global economy. Examples of EDA programs include revolving loan funds, investment funds for innovation infrastructure, and university-entrepreneur partnerships.

- **i6 Challenge.** OIE's i6 Challenge was designed to encourage and reward innovative ideas that accelerate technology commercialization, new venture formation, job creation, and economic growth across the United States. In 2010, six i6 winners each received $1 million, through Economic Adjustment Assistance Funds, and were eligible for up to an additional $1 million in funding. Visit **www.eda.gov/i6** for more information.

- i6 Green. In 2011, OIE will implement i6 Green in partnership with the U.S. Departments of Agriculture, Energy, the U.S. Environmental Protection Agency, the National Science Foundation, and Commerce's National Institute of Standards and Technology and U.S. Patent and Trademark Office. i6 Green, with anticipated funding of over $12 million, supported with Global Climate Change Mitigation Incentive Funds, builds upon the success of last year's inaugural i6 Challenge. It promotes commercialization of technology through "Proof of Concept Center" methodology, which supports all aspects of the entrepreneurship process, from assisting with technology feasibility and business plan development, to providing mentorship and access to early-stage capital. i6 Green winners will demonstrate a clear, specific, and realistic approach to accelerating the movement of clean economy technologies to the marketplace, including technologies to advance renewable energy, energy efficiency, reuse & recycling, restoration and/or green buildings.

- **Regional Innovation Acceleration Network (RIAN).** Accelerating the development of high-growth, innovation-based firms is the hallmark of a 21st century economic development strategy. EDA's OIE is working with the State Science and Technology Institute to create a national network of venture development organizations to build capacity for supporting innovation and entrepreneurship in distressed regions. Venture development organizations, such as JumpStart in Northeast Ohio and Ben Franklin Technology Partners in Pennsylvania, provide a variety of services

i6 Challenge 2010 Winners

Atlanta Region: The Global Center for Medical Innovation, a not-for-profit corporation, will implement three major initiatives to accelerate the development and commercialization of next generation medical devices and technology.

Austin Region: New Mexico Technology Ventures Corporation will develop an infrastructure for the successful maturation of technologies developed under the Small Business Innovation Research (SBIR) program into commercially viable enterprises.

Chicago Region: University of Akron Research Foundation and Austen BioInnovation Institute in Akron partnered to develop Innovative Solutions for Invention Xceleration. This project will increase innovation and minimize the time from ideation to commercialization of new technologies by bringing together world-class scientists, physicians, engineers, researchers, and entrepreneurs in the biomedical device/product and polymer science industries of northeast Ohio.

Denver Region: BioGenerator, Washington University in St. Louis, Saint Louis University, the University of Missouri at St. Louis, Donald Danforth Plant Science Center, St. Louis County Economic Council, and the St. Louis Development Corporation will advance bioscience technology commercialization through collaborative targeted pre-company translational research, company creation, and first funding, and build an entrepreneurial infrastructure that is market-based around the needs of existing bioscience firms and investors.

Philadelphia Region: Innovation Works, Inc. and Carnegie Mellon University will create the "Agile Innovation System," to accelerate the commercialization of technologies being developed within the region's universities and small businesses.

Seattle Region: The Oregon Translational Research & Drug Development Institute, the Oregon Nanoscience & Microtechnologies Institute, and the Oregon Built Environment & Sustainable Technologies Center are joining forces to create the first comprehensive, innovation infrastructure – the Oregon Innovation Cluster – to address gaps in the commercialization continuum for three broad industry/technology clusters.

that directly benefit small businesses, including access to capital, expert business assistance, and network development. In 2011, RIAN is identifying best practices, measuring economic impacts, and providing assistance to regions interested in establishing or establishing venture development organizations to support business development.

- **The Broadband Technology Opportunities Program (BTOP) and the Broadband Infrastructure Program (BIP).** The Recovery Act provided a total of approximately $7 billion in grant and loan funds to the Department of Commerce's (DOC) National Telecommunications and Information Administration (NTIA) and the Department of Agriculture's (USDA) Rural Utilities Service (RUS) for projects that will increase access to and adoption of broadband service across America. All funds were awarded by September 2010 for projects that will be built by 2013. Over $1.7 billion in funds were provided for small business projects. Additionally, many small businesses are project partners or vendors, and some of these projects target training in online resources for job searches, entrepreneurship, and small businesses issues. Beyond direct awards, small businesses will benefit indirectly from these projects through increased broadband availability for themselves and their customers. The potential commercial benefits to small businesses are clear, including more affordable access to information and job training for employees; improved access to partners, vendors, and suppliers; faster, more cost-efficient outreach to potential and actual consumers through websites, e-mails, and e-commerce; more efficient business management through cloud computing and other online tools; and access to regional, nationwide, or even global markets.

Listening to Small Businesses and Building on Success. The Obama Administration is committed to improving on its small business initiatives by continuing what works and cutting what does not. In addition to building on success, President Obama and his Administration will improve these efforts by listening to the people the programs are designed for—small business owners and leaders.

- **Federal Reserve Bank Small Business Lending Roundtables.** The Board of Governors of the Federal Reserve System hosted a forum in July 2010 entitled *Addressing the Financing Needs of Small Businesses* to share information and gather perspectives on how to best address the immediate and longer-term credit needs of small businesses. The forum followed a series of more than 40 small business meetings organized by the Federal Reserve System's Community Affairs Offices across the country to deepen our understanding of the financing challenges that small businesses currently face.

- **Treasury Department Small Business and Entrepreneurs Access to Capital Conference.** The Treasury Department hosted a March 2011 conference which explored access to capital for small businesses. Access to capital is vital to spurring investment in small and innovative businesses, promoting job creation, and fueling sustainable economic growth. A broad range of options to help small businesses access the capital they need to expand and grow were discussed.

- **Startup America Regulatory Roadshow.** Startup America is the White House initiative to celebrate, inspire, and accelerate high-growth entrepreneurship throughout the Nation. One core goal of the Startup America initiative is to reduce barriers that are hampering entrepreneurs' ability to start and scale their businesses. The White House, in partnership with the SBA, decided the best way to figure out which regulatory barriers were hindering entrepreneurs was to ask those who are directly affected so that entrepreneurs can help identify solutions as well. That's why during March and April 2011 Senior Administration officials have visited four cities and held roundtable discussions to ask entrepreneurs for their ideas on which Federal regulations and processes could be changed to foster greater entrepreneurship, innovation, and job creation. At the end of this series of roundtables, all the feedback and online comments will be used to create a list of the top suggestions. Administration officials will use this input to write a report to the President on how to best reduce barriers and continue to strengthen America's entrepreneurial spirit. The Office of Information and Regulatory Affairs is also committed to sharing the public's solutions with the agencies as it coordinates implementation of the President's Executive Order for regulatory review. The government has also created an online tool where anyone can submit, comment, and vote on the new ideas and proposed solutions they think are most important. The online tool can be found at: **http://reducingbarriers.ideascale.com/**.

- **SBA Listening Tour.** SBA has hosted a Small Business Jobs Act Listening Tour that will cover 13 cities and include tribal consultations. All key stakeholders—including small business owners, prime contractors, lenders, congressional staff and the procurement workforce—were invited to the events. The objectives of the tour are to provide information on SBJA provisions, receive input on key SBJA provisions and ensure SBJA implementation is a collaborative process with stakeholders.

- **Winning the Future Forum at Cleveland State University.** There are different kinds of small businesses all across America but at the core of every small business is the entrepreneur. These entrepreneurs need the tools to make their companies grow and their dreams come true because they are America's competitive advantage. This comparative advantage is unique because not only does it provide innovation but also inspiration and empowerment to an ever greater diversity of communities and individuals desiring to build great American companies. In order support this, the President and several members of his cabinet traveled to Cleveland State University in Cleveland, Ohio to hear from local small business owners, entrepreneurs, and non-profit organizations what exactly the Administration can improve upon to win the economic future. Conversations centered on the five central topics of access to capital, entrepreneurship, exports, workforce development, and clean energy.

- **The White House Business Council.** President Obama has re-launched the White House Business Council as part of the Administration's way to reach out to local small business owners and entrepreneurs. Specifically, the Administration will begin a series of Winning the Future Roundtables with American business that will send senior Administration officials to moderate discussions with local business leaders in at least 100 communities across all 50 states by year-end 2011. This initiative also serves as a call to action by the President on the importance of supporting local job growth and economic investment. This initiative is coordinated by the White House Business Council. The Council encourages senior Administration officials to getting out of Washington to hear directly from American business leaders and entrepreneurs, and that the ideas they are hearing across the country are brought back to Washington, furthering the Administration's commitment to grow jobs and increase American economic competitiveness. Over 100 senior Administration officials are now members of the White House Business Council.

III. Augmented Federal Contracting Opportunities

Presidential Interagency Taskforce on Federal Contracting Opportunities for Small Business and The Small Business Jobs Act of 2010. In April 2010, President Obama signed a Presidential Memorandum in 2010 highlighting the need to provide small businesses opportunities in Federal contracting and establishing an Interagency Task Force on Federal Contracting Opportunities for Small Businesses. In September, the same month the Task Force recommendations were released, the President signed into law the Small Business Jobs Act. The SBA is implementing the recommendations as well as the Small Business Jobs Act provisions. The Task Force identified three key priority objectives with actionable recommendations:

- **Stronger Rules.** Insufficient guidance and gaps in current policy hamper the use of tools that provide contracting opportunities for small businesses. The Task Force recommended actions to strengthen and update policies where they are weak or outdated and to develop them where they are lacking:

  - **Set-Asides**. Update acquisition policies and regulations to provide clear guidance on small business set-asides for multiple award contracts and related tools.

  - **Contract Bundling**. Issue guidance clarifying practices and strategies to mitigate the negative effects of contract bundling on small businesses, where work that has been performed by small businesses is consolidated in a manner that makes it difficult for small businesses to compete for Federal contracts.

  - **Mentor-Protégé Programs**. Develop a Government-wide framework for small business Mentor-Protégé programs, in which large businesses are paired with small businesses to provide technical and financial assistance, and clarify the rules for small business teaming.

  - **Subcontracting**. Strengthen the requirements for small business subcontracting plans and enhance the electronic subcontracting reporting system (eSRS). The eSRS is one of a number of government-wide systems that the General Services Administration (GSA) manages on behalf of Federal agencies to support Federal acquisition activities.

  - **Agency Review**. Identify where focused efforts will likely have the most positive effect on increasing small business utilization in prime contracting.

  - **Insourcing**. Clarify the policies that address the rebalancing of the workforce and evaluate the impact of insourcing on Federal small business contractors.

- **Surety bonds.** Conduct a full review of the SBA Surety Bond program, the financial products it offers, and its current funding to determine if it is meeting the needs of small businesses.

- **A better equipped, more informed, and more accountable acquisition work force.** A lack of knowledge and agency accountability inhibits the Government's ability to meet and exceed small business procurement goals on an ongoing basis. The Task Force recommended increasing the knowledge base and efficiency level of the procurement workforce and providing appropriate incentives and accountability for agencies to meet small business goals.

  - **Mandatory Training.** Strengthen the skills of the acquisition workforce by revising existing core certification; requiring training on small business contracting, procurement policies and regulations; and creating focused refresher materials for continuous learning.

  - **Accountability and Recognition.** Use meaningful "carrots and sticks" to create a greater sense of agency accountability for reaching small business Federal contracting goals.

  - **Sharing Best Practices.** Facilitate the identification and rapid adoption of best practices, across the agencies to maximize successful strategies.

- **Improved Outreach and Better Use of Technology and Data.** The current data systems in the Federal acquisition environment are cumbersome and not user friendly for many small businesses, especially for those who are new to the systems and trying to "get their foot in the door." The Task Force recommended a one-stop shop for easier access to procurement information, as well as greater focus on the accuracy of procurement data.

  - **Improved Access to Business and Training Opportunities.** Enhance *FedBizOpps.gov*, the Government-wide point of entry on business opportunities, to also serve as a one-stop resource for annual requirements forecasting agencies' prime contracting opportunities and for posting subcontracting opportunities. The website also hosts the outreach calendar of all Federal agency matchmaking and training events and a directory of online agency small business resources.

  - **Improved Access to Data.** Improve the accessibility and usability of small business procurement data in the Federal Procurement Data System (FPDS).

  - **Improve Data Quality.** Improve data quality related to small business contracting through use of validation rules and improved systems quality.

Federal Contracting Opportunities for Minorities. At a time when Americans are enduring the challenges of an economic recovery and elevated unemployment rates, MBDA has remained diligent in enhancing the growth and global competitiveness of the fastest growing segment of the U.S. business community – minority-owned businesses. Along with the SBA and the Office of Management and Budget (OMB), MBDA was named as one of the official co-chairs of the Interagency Task Force, designed to assist Federal agencies in reaching their FY 2011 small business contracting goals while expanding minority business contracting opportunities.

- **American Recovery and Reinvestment Act.** Since its inception, MBDA has played an integral role in supporting minority-owned firms in American Recovery and Reinvestment Act (ARRA) efforts. These efforts include redirecting $900,000 in program funding in 2009 to support ARRA efforts on the state and local levels. ARRA efforts also included working with key representatives at the Federal, state and local government levels to ensure minority businesses receive their fair and equitable share of ARRA contract opportunities.
  - **Continued Support.** MBDA has continued to support contract and financing opportunities as ARRA winds down. MBDA led or participated in 112 of the total 300 Federally sponsored ARRA-related events and helped facilitate $150 million in additional ARRA-related contracts for minority-owned firms on the state and local level.

> Starks Contracting Company, Inc. is a veteran-owned small business contracting company primarily engaged in the construction of commercial and institutional buildings and appurtenances.
>
> The company was originally established in 1933 as J. P. Starks Contractor and incorporated in 1967. The Biloxi, Mississippi-based company has been doing business with NASA's John C. Stennis Space Center for more than 30 years.
>
> In November 2006, Starks was awarded a $19 million construction contract to build a new Emergency Operations Center (EOC) at Stennis. The approximately 80,000-square-foot EOC consolidates the center's medical clinic, fire department, security services, energy management control system, and incident command post.
>
> The EOC is on track to be Stennis's first Leadership in Energy and Environmental Design (LEED) project. LEED is a third-party certification program that is the national benchmark for the design, construction, and operation of high-performance green buildings.
>
> The EOC showcases a state-of-the-art HazNet Emergency Management System developed through NASA's Innovative Research Program. The EOC is one of only nine Federal facilities certified StormReady, a designation given by the United States National Weather Service to communities and sites across the country that demonstrate severe weather readiness.
>
> Starks won the contract over two large contractors in the full and open competition with a bid that was $2 million less. This allowed Stennis to reinvest the cost savings in other Hurricane Katrina remediation work.

- **10,000 New Jobs.** During the first two years of the Obama Administration, MBDA reported that it facilitated nearly $7 billion in total contracts and financings and, according to MBDA studies, the creation of over 10,000 new jobs

- **FY 2010 Results.** In FY 2010, MBDA reported that it assisted minority-owned firms in securing nearly $4 billion in contracts and financing opportunities while helping minority-owned businesses create 6,397 new jobs, the highest level of performance in the history of the Agency

- **FY 2009 Results.** In FY 2009, MBDA assisted minority firms in securing $3 billion in contracts and financing opportunities while helping minority-owned businesses create 4,134 new jobs

Increased Federal Contracting Dollars. The Administration continues to fulfill its commitment to being a good customer to our nation's small businesses and is committed to ensuring an appropriate share of its contracting needs goes to small businesses.

- **More than $100 billion to Small Businesses through Government Contracts.** Each year, the Federal Government spends about half a trillion dollars on goods and services and the SBA works to facilitate the maximum participation of small businesses in these expenditures, including those the SBA particularly targets businesses owned by women, certain socioeconomic groups, service-disabled veterans, and those in areas hardest hit by the economic decline. In 2009, the Government awarded small businesses almost $100 billion in contracts—an increase in the dollar and percentage amounts over 2008 for the overall small business goal and every socio-economic goal. And to date, nearly $11 billion in Recovery Act contracts have gone to small businesses. These dollars provided small businesses a much-needed boost to create and retain jobs and help revitalize our economy.

- **Meeting and Exceeding Federal Contracting Goals.** The Administration is committed to ensuring that 23 percent of Federal contracting dollars go to small businesses. Additional sub-goals seek to provide 5 percent of Federal contracting dollars to small disadvantaged businesses, 5 percent to women-owned small businesses, 3 percent to service-disabled veteran-owned small businesses, and 3 percent to small businesses in historically underutilized business zones (HUBZones). Under the Recovery Act, 32.62 percent of all Federal contracting dollars went to small businesses, and all sub-goals were exceeded.

Like many small businesses, Hal Hays Construction, Inc (HHCI) relies on Federal contracts for much-needed revenue, and they noticed an uptick in contracts as soon as Recovery Act spending became available. The company used Recovery Act contracts, as well as SBA's 8(a) and HUBZone programs, to expand its reach, grow the business, and hire new workers despite tough economic times. HHCI is working with new customers, like the Department of Transportation, and in new sectors of the economy. With contracts available throughout the country, Hal Hays Construction has been able to expand its geographic reach.

HHCI competed for and won several Recovery Act contracts, including an $8.6 million contract to install solar panels on Alcatraz Island for the National Park Service, a $7.2 million contract for work at Pearl Harbor for the Navy, and a contract to build roads in Redwood National Park for the Federal Highway Administration.

Larger contracts improved HHCI's portfolio and helped the company compete with larger firms. Most importantly, the contracts have helped HHCI prevent layoffs and create jobs. With the new business the Recovery Act has brought in, Hays has retained 35 employees—and hired 30 more.

HUBZone Contracting In Action

After earning NASA's top three corporate honors in less than 2 years, Applied Geo Technologies (AGT) has distinguished itself as one of the most detail-oriented contractors in the industry. In fact, you might even call it their business strategy. "Continuous improvement is not just a buzz word with us," said Mike Miller, Interim President and CEO at AGT. "It's an operational mission that drives everything we do—from global administration and strategic planning right down to the pattern we mow in the grass."

With a cadre of operational services spanning commercial, aerospace, and defense concerns, maintaining such a consistently high level of success is no easy feat. "As our customers' needs evolve, so does our list of products, services, and even locations. But with each new venture, we're proud to uphold the values that have sustained us this far. Put the customer first, do it once, and do it right."

In many ways, AGT's ideals are no different than the organizations they serve. "NASA didn't become what it is today by resting on its accomplishments," added C.C. Fridlin, Director of Business Development at AGT. "With each new milestone came the motivation to push harder, learn more, achieve faster, and reach higher. We like to think we do the same."

Their record agrees. In the first quarter of 2010 alone, AGT earned both the prestigious George M. Low Quality Award and the John C. Stennis Space Center Contractor Excellence Award—two of the highest commendations for a space contractor.

The George M. Low Award is NASA's premier quality and performance honor, recognizing excellence and outstanding technical and managerial achievements in quality and performance on NASA-related contracts or subcontracts. As part of its tireless dedication to operational efficiency, AGT developed a quality built- in approach to contract work. The resulting changes included improvements in everything from process control to management oversight, as an attempt to reduce the risk of quality and/or performance issues at all levels. As a result, AGT delivered reductions in human error, increased scores for technical performance and timeliness, zero cost overruns, and an excellent safety record.

The Low Award comes on the heels of the coveted Stennis Contractor Excellence Award, which recognizes outstanding product and service performance for work related to the Center's laboratory services. Prior to that, AGT became the first resident agency at Stennis Space Center to receive the Occupational Safety and Health Administration Voluntary Protection Program "Star" status for safety implementations. AGT was also named the Center's Small Business Prime Contractor of the Year under NASA's Small Business Industry Awards program.

- **Increasing Opportunity for Women Owned Businesses.** The Women-Owned Small Business Contracting program, authorized more than ten years ago, was finally implemented by the Obama Administration this year. The rule is part of the Obama Administration's overall commitment to expanding opportunities for small businesses to compete for Federal contracts, in particular those owned by women, socially and economically disadvantaged persons and veterans. This rule identifies 83 industries in which women owned small businesses (WOSBs) are under-represented or substantially under-represented in the Federal contract marketplace. In addition to opening up more opportunities for WOSBs, the rule is also another tool to help achieve the statutory goal that 5 percent of Federal contracting dollars go to women-owned small businesses. SBA released the final Women-Owned Small Business Rule in October 2010 to cover WOSBs and economically disadvantaged WOSBs. In February 2011, SBA posted guidelines for the program to **www.sba.gov/wosb**. WOSBs can register to be eligible for contracts under the new rule by visiting online.

- **Increased Agency Accountability for Small Businesses and Underserved Communities through Updated Scorecard.** To hold agencies accountable for their individual goals, SBA released a new and more comprehensive contracting scorecard format in FY 2010 that improves the way small business contracting performance is measured across the Government. In addition, SBA and the Office of Management and Budget (OMB) are working closely with all procurement agencies to ensure accurate data collection.

* **National Grant Awards for MBDA Business Centers.** On April 1, 2011, MBDA announced $7.8 million in funding for 27 MBDA Business Centers located across the country and Puerto Rico to operate 30 MBDA Business Centers, including new locations opening for the first-time in Cleveland, Ohio; Denver, Colorado; and Manhattan, New York. The strategic business consulting services provided by the MBDA Business Centers will generate increased financing, public and private sector contract opportunities and related awards to minority businesses, in addition to assisting minority-owned firms in creating and retaining jobs. The awards were made on April 6, 2011.

  - **2011 MBDA National Training Conference.** From June 20 – 24, 2011, in Houston, MBDA will host a conference for all of its Business Centers and staff to review Obama Administration priorities as well as Department of Commerce strategies and initiatives to strengthen the economy, create jobs and promote U.S. exports. In addition, the Conference will provide on-going business development training to MBDA's Business Centers and to MBDA Business Development Specialists nationwide.

  - **29th National Minority Enterprise Development (MED) Week Conference.** In collaboration with the SBA, this national conference, scheduled for September 27-30 in Washington, DC, will provide minority business enterprises (MBEs) with access to the policymakers, program managers, financial lenders and procurement officers who are vital to their success. The MED Week Conference will include a Business-to-Business Expo to expand procurement opportunities and expects to exceed the 2010 B2B levels of $30 billion in procurement opportunities and 1,500 conference attendees. MED Week will also provide greater focus on exporting opportunities and implement targeted networking sessions to enhance joint ventures and strategic partnerships.

* **GSA Mentor-Protégé Program.** GSA's mentor-protégé program fosters long-term relationships between GSA prime contractors and small businesses to enhance protégés' capability to win and perform successfully on GSA contracts and subcontracts. The new mentor-protégé program has already helped boost small businesses across the country with 55 agreements in place, including 31 with service-disabled veteran owned small businesses. In one example, a protégé received a $3.5 million contract due to assistance from their mentor and the program. GSA is learning of more successes like this as we measure our first-year results. GSA plans to augment this program in FY 2011 with a tailored workshop

series. This program will benefit businesses of all sizes, with procurement benefits for both protégés and mentors.

- **Commitment to Transportation Infrastructure.** In his FY 2012 Budget President Obama laid out a bold new plan for rebuilding and modernizing America's transportation infrastructure—combining new investments to renew and expand our nation's roads, railways and runways with a long-term vision for the future. This plan will bring jobs to our economy now, be fully paid for and not add to the deficit over time, and increase our nation's growth and productivity over the long-term. This will provide increased contracting opportunities for U.S. Small Businesses.

More Efficient Government Contracting Procedures. In addition to offering increased Federal contracting opportunities to small businesses, the Obama Administration is committed to making contracting procedures more efficient. This means small businesses will be able to spend more time working on the project and less time applying for the project.

- **Elimination of Programmatic Inefficiencies for Federal Contracting.**

  - **HUBZone.** The Historically Underutilized Business Zones (HUBZone) program helps small businesses in urban and rural communities gain preferential access to Federal procurement opportunities. These preferences go to small businesses that obtain HUBZone certification in part by employing staff who live in a HUBZone. The company must also maintain a "principal office" in one of these specially designated areas. The HUBZone Program implemented new processes in FY 2009/FY 2010 to minimize waste, fraud, and abuse and to reduce the subsequent certification backlog. This new approach minimizes the number of ineligible firms obtaining certification, but resulted in an increased amount of work required to review each application As a result, HUBZone built up a large backlog of applications, which has since been reduced. The SBA also performed more than 1,200 site visits of HUBZone firms to enhance the program's integrity and ensure that the program serves the vital needs of eligible small businesses.

  - **Revised 8(a) Regulations.** The 8(a) Business Development Program is an important resource for small businesses seeking business-development assistance. Named for Section 8(a) of the Small Business Act, this program was created to help small and disadvantaged businesses compete in the marketplace. It also helps these companies gain access to Federal and private procurement markets. SBA recently conducted the first major review of the 8(a) regulations in ten years. New regulations, which were drafted after gathering over 2,500 comments from small businesses and stakeholders were finalized and released in February 2011. The new 8(a) regulations strengthen tools such as the mentor-protégé program and ensure that benefits of the program flow to the intended recipients. For additional information please visit www.sba.gov/content/revised-8a-regulations.

- **Stronger Oversight and Enforcement.** Working with its Federal partners, the SBA has taken multiple steps to strengthen oversight and enforcement to better ensure the benefits of Federal small business contracting programs are going only to eligible firms. Significant steps have been taken to strengthen certification processes, ongoing monitoring and oversight, and timely enforcement. These efforts are aimed at reducing the opportunities for abuse of these critical programs and aggressively pursuing fraudulent activity and ineligible firms.

- **Enhanced General Services Administration (GSA) e-Commerce Tools.** *GSA Advantage!*, **www.gsaadvantage.gov**, a Federal online shopping and ordering system, gives Government agencies access to over 18,000 vendor contracts, including 15,000 held by small businesses, and over 28 million products, services and solutions. The website, established in 1996, has been revamped with the latest and most widely used commercial technologies, enhanced search, and online ordering and payment features. Vendors can now post more detailed product and shipping information, videos, and high resolution pictures. Vendors and Government buyers can conduct direct online sales, streamlining and modernizing the way they do business. *GSA Advantage!* provides a wide array of small businesses, including women-owned, minority-owned, veteran-owned, and HUBZone firms, with new-and-improved marketing and sales capability to Government buyers. *GSA Advantage!* makes it easier for customers to compare prices from multiple vendors and to filter and find small businesses, enhancing their ability to make good purchasing decisions and increase small business sales. The site has close to 800,000 registered users and receives approximately 500,000 visits per day.

Contracting Partnerships for Small Businesses. Entrepreneurs across America have cited having a mentor as a necessity for a successful venture. These programs offer partnerships to build the relationships that will allow small businesses and new enterprises to continue to grow and create jobs.

- **Public-Private Sector Federal Contracting Partnerships.** Government Contracting Mentor-Protégé programs pair private sector companies with small businesses to provide technical and/or management assistance, financial assistance, subcontracting opportunities and opportunities for joint ventures. As part of the Small Business Jobs Act, the Mentor-Protégé program will now be extended to service-disabled veteran-owned small businesses, women-owned small businesses and HUBZone small businesses.

- **NASA Mentor Protégé Agreements.** There were 16 Mentor-Protégé Agreements from 2008-2010. The estimated dollars credited to the various mentors' subcontracting plans for all agreements is $2,715,408. The total dollars that Mentors have subcontracted to protégés during their agreements from 2008-2010 is $2,357,620.

- **Partnerships with National Laboratories.** The Department of Energy (DOE) National Laboratories have robust subcontracting programs which create numerous opportunities for small businesses. Based on FY 2009 reporting (the latest available), in total, the Management and Operating (M&O) contractors subcontracted $9.446 billion, of which 52.5 percent went to small businesses ($4.959 billion). For the ten Office of Science laboratories, $1.957 billion was subcontracted, of which $949 million (or 48.5 percent) was subcontracted to small businesses. Each year, the Office of Science negotiates small business subcontracting goals with each of its laboratories. These goals include small business subcategories such as veteran-owned small businesses, service-disabled veteran-owned small businesses, HUBZone small businesses, small-disadvantaged businesses, and women-owned small businesses. DOE's M&O contractors use various sources to locate qualified small businesses to satisfy their subcontracting needs, including SBA Dynamic Small Business Search, Central Contractor Registration, Sub-Net, email solicitations from small businesses, and the annual DOE Small Business Conference. In the last two years, the DOE M&O contractors have exceeded their small business contracting goals, ensuring that more than 50 percent of their subcontracted dollars went to small businesses.

- **MOU with Department of the Navy (DON).** The SBA and DON are working collaboratively to help reach the Administration-wide goals of greater energy efficiency from sustainable energy sources and reducing energy consumption. As the first initiative under the MOU, in October 2010 the Navy unveiled a centralized portal aggregating current green procurement opportunities. At launch, approximately 25 percent of the green procurement opportunities were set-asides for small business. Over the longer term, the SBA is committed to creating a dynamic, entrepreneur-friendly, green procurement portal that builds upon the Navy's work and is an online platform that allows entrepreneurs to more easily navigate the Federal Government.

Meeting National Security Needs through Small Business. Over the past two fiscal years, the Department of Defense (DOD) has awarded $127.9 billion and over 2 million contract actions to small businesses, representing more than half of all Federal spending with small businesses. The nation's small businesses add vitality to the defense industrial base, are a key driver of innovation, and contribute vitally to meeting the continuing and complex needs of the DOD.

DOD Innovation in Payment Regulations

Recently, in collaboration with the Administration, the DOD changed its prompt payment regulations to provide for paying all small businesses as quickly as possible. Previously, the Defense Federal Acquisition Regulation Supplement (DFARS) extended this accelerated payment policy only to those businesses that were considered small and disadvantaged. DOD changed the regulations so that all small businesses could receive payments as quickly as 10 days after submitting an invoice, rather than having to wait for 30 days. Because the DOD payment systems need to be modified to accommodate this change, accelerated payment will be implemented on a phased basis as payment systems are updated. DOD procures over $60 billion a year of goods and services from small businesses, so this is a significant win for the small business community. As a result of this change, thousands of small businesses across the country will be able to leverage this accelerated cash flow to meet payroll, invest in new technologies, and create jobs.

- **Better Buying Power.** As outlined in a September 14, 2010 memorandum from Under Secretary of Defense for Acquisition, Technology & Logistics Ashton Carter to the acquisition workforce, entitled "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending," DOD has directed several recent actions to increase contracting opportunities for small businesses. The first is to increase the role of dynamic small business in defense marketplace competition by emphasizing small business utilization in subcontracts through weighting factors in past performance and in fee construct. The second is to increase small business participation in providing services and when using Multiple Award/IDIQ contracts.

- **Office of Small Business Programs Oversight.** The military departments and defense agencies are already implementing the oversight program, and the DOD Office of Small Business Programs is developing a best practices guide for procurement officials. All acquisitions for services exceeding $1 billion are also being reviewed by the DOD Office of Small Business Programs to ensure full maximum opportunities for small businesses.

- **Defense Logistics Agency.** The Defense Logistics Agency is mining its buying data to increase contracting opportunities for Service-Disabled Veteran-Owned Small Businesses. The Agency, through its analysis, has found more than 4,400 National Stock Numbers of items it buys that can be set aside for small businesses owned and operated by service-disabled veterans. Additionally, the Agency has worked to expand its pool of Service-Disabled Veteran-Owned Small Businesses that might be able to contract with the Department of Defense. One part of the organization identified over 300 potential business partners by studying the Central Contractor Registration and matching up publicly available codes with these small businesses. Another Agency office telephoned over 150 potential Service-Disabled Veteran-Owned Small Businesses to discuss their capabilities. If the small businesses were unable to participate in procurements under the cognizance of the office making the calls, the Agency provided relevant contract information to other parts of the Defense Logistics Agency where the businesses might find opportunities.

- **Collaboration with Department of Homeland Security's (DHS) Office of Small and Disadvantaged Business Utilization (OSDBU).** FEMA routinely participates in DHS's vendor outreach sessions and its annual industry day conference. As part of FEMA's overall mission, small businesses receive expert advice, support and counsel from FEMA's Small Business Specialist to help them understand FEMA's mission and its acquisition process. Moreover, FEMA participates in numerous small business conferences throughout the nation.

  - **FEMA's Industry Liaison Program.** FEMA's Industry Liaison Program arranges meetings between small business "sellers" and potential FEMA "buyers" as part of FEMA's frequently held industry days at which small businesses learn about upcoming acquisitions and how to compete for them.

- **FEMA'S Local Business Transition Team (LBTT).** FEMA has established a team-based approach for converting large contracts to small local businesses in a Presidentially declared disaster area. The LBTT was piloted in the aftermath of Hurricanes Ike and Gustav and is now an established program within FEMA. The LBTT implements Section 307 of the Robert T Stafford Act and Part 26 of the Federal Acquisition Regulation.

- **Voluntary Private Sector Preparedness Accreditation and Certification Program (PS-PrepTM).** This DHS program, coordinated through FEMA, seeks to raise the level of preparedness throughout the private sector by providing a way for private sector entities to voluntarily take important preparedness actions. The program gives private sector entities the opportunity to certify their conformance to DHS-adopted disaster preparedness and/or business continuity standard. The small business aspect of the program will establish separate classifications and methods of certification for smaller entities, to provide more affordable and accessible alternatives in the process of certification.

  - **DHS is working with public and private entities** that offer preparedness programs and activities to develop a nationwide network of organizations that will provide a variety of low cost educational tools and technical assistance to support small businesses in improving preparedness and reaching conformance to an adopted standard. FEMA's Citizen Corps works with state, territorial, tribal and local Citizen Corps Councils to promote inclusion of small businesses in community planning and preparedness through partnerships with community preparedness organizations and programs.

- **US Coast Guard (USCG) Outreach.** The USCG achieved unprecedented success with awards to small and disadvantaged business in FY 2010, exceeding all socioeconomic goals. The USCG operates 48 contracting offices located throughout the country, including Hawaii and Alaska, and it has maintained a "grass roots" connection to the small business communities that surround its offices. This strategy consistently delivers results, and FY 2010 was the best year ever. More than 43 percent of the dollars contracted by the USCG were awarded to small businesses; more than 15 percent to small disadvantaged businesses; nearly 7.5 percent to SBA 8(a) certified businesses; more than 6 percent to woman-owned small businesses; more than 5 percent to HUBZone businesses; more than 6 percent to veteran-owned small businesses; and more than 3.5 percent to service disabled veteran-owned small businesses.

  - **Vendor Outreach Sessions.** The USCG as a component of DHS, actively participates in monthly vendor outreach sessions to educate small businesses on contracting with the USCG, and to provide information on current and future opportunities. The USCG attends 10 vendor outreach sessions per year in the Washington, DC area, and at least two additional vender outreach sessions in other regions of the country. For example, in FY 2010, the USCG attended a vendor outreach session in Texas to support companies in the Gulf region. In FY 2011, the USCG intends to attend vender outreach sessions in Boston, MA and San Diego, CA.

- **Information Technology Outreach.** With the establishment of the USCG Command, Control, Communications, Computer, and Information Technology (C4IT) Directorate, the C4IT Chief of Contracting sponsored an industry day in July 2010 to introduce the C4IT mission and needs to the small business community. Over 300 companies attended and received information on the C4IT structure, points of contact, and upcoming opportunities.

- **U.S. Citizenship & Immigration Services (USCIS) Contracting Office.** USCIS Contracting Office awarded $165 million to small businesses through government contract awards in FY 2010 (approximately 20 percent of eligible dollars). This includes approximately $81 million to small disadvantaged business. To date in FY 2011 USCIS has awarded $78 million and 25% of total dollars to small businesses and are on track to exceed DHS Small Business goals.

  - **Participation in SBA Matchmaker Events.** The USCIS Contracting Office regularly sends representatives to participate in SBA Matchmaker events in VT and the Northeast SBA region. The most recent event, held in February 2011, was attended by two Contract Specialists and over 50 Small Business vendors.

  - **One-on-One Meetings.** The USCIS Small Business Specialist and Contracting Office team periodically schedule face-to-face meetings with Small Business vendors as requested to assist in matching Small Business capabilities with agency needs.

  - **DHS Competition and Acquisition Excellence Award for FY 2009.** In FY 2010, the USCIS Contracting Office was honored with the FY 2009 DHS Competition and Acquisition Excellence Award, "Promoting and Achieving Competition by a Team," which focused on expanding competition exclusively in the small business area of 8(a) and Service-Disabled Veteran-Owned Small Businesses (SDVOSB).

- **U.S. Immigration and Customs Enforcement's (ICE), DHS, Office of Acquisition Management.** ICE's Office of Acquisition Management delivered more than $470 million to small businesses through Government contracts in FY 2010. Overall, 37.4 percent of all eligible dollars were awarded to small business firms. This included approximately $177 million to small disadvantage businesses, approximately $63.6 million to 8(a) firms, approximately $88.8 million to service disabled veterans owned small businesses, approximately $143.5 million to women-owned small businesses, and approximately $14.7 million to HUBZone firms. The ICE small business specialist is directly involved in the acquisition strategy for any procurement exceeding $10 million for the anticipated period of performance.

  - **The ICE Small Business Specialist** conducts vendor outreach sessions with the small business community on a weekly basis. Program and acquisition staff members participate in the meetings and provide small firms with vital information concerning ICE contract opportunities.

- **Small Business HUBZone Conference.** The ICE Office of Acquisition Management recently held its first Small Business HUBZone Conference. A total of 52 industry representatives attended the event, which included participation by the DHS Director of Small Business, Customs and Border Protection Small Business Specialist, and ICE Contracting Professionals. Companies who specialized in program management support services and Information Technology support services were invited, as the majority of eligible services procured by ICE are in those categories. Vendors had an opportunity to meet with Government technical panels and discuss their capabilities. The event was well received and will assist ICE in its efforts to increase opportunities to HUBZone companies.

- **Face-to-Face Small Business Meetings.** The ICE Small Business Specialist periodically schedules face-to-face meetings between Small Business vendors and ICE Personnel who have expertise in the vendors' core competencies, in order to match Small Business capabilities with agency needs.

- **US Secret Service, DHS.** The Secret Service awards a large number of contracts to the small business community. The Secret Service participates in monthly vendor outreach sessions with DHS for small businesses providing information on doing business with DHS agencies, and information on current and future contracting opportunities at the Secret Service.

- **Customs and Border Protection (CBP), DHS.** In 2010, CBP's Office of Trade Relations expanded CBP's trade outreach capabilities through the use of new methods, including webinars and webcasting, to reach out to small and medium-sized businesses. These free webinars are a way for our stakeholders to get information on key CBP issues impacting trade.

  - **Webcasting.** CBP has also started to use live webcasting to allow members of the trade community with constrained budgets to participate in CBP outreach events such as the CBP Trade Symposium. For more information please contact **private.sector@dhs.gov**.

- **DHS National Protection and Programs Directorate's Office of Infrastructure Protection's Contingency Planning and Incident Management Division (CPIMD).** Over 33 percent of all Readiness contract support is provided by small business. Small businesses provide the following:

  - **Contract Support to Assist Building a Formal Information Management Training and Exercise Program.** The target audience for training and exercises includes multiple DHS components, as wells as Federal, state, and Critical Infrastructure and Key Resources (CIKR) private sector partners. The estimated annual throughput of participants attending Infrastructure Protection readiness events is well over several hundred each year. Infrastructure Protection must train and exercise all these CIKR partners to better understand and execute their incident management roles which include maintaining situational awareness, assessing and analyzing CIKR data, sharing pertinent information internally and externally, and responding to requests for information and assistance. While each Infrastructure Protection Division is responsible for execution of training to meet the day-to-day functional requirements of the division, the IP Readiness fills the capability gap for incident response.

- **Contract Support to Assist in Building a Formal Exercise Program with Infrastructure Protection's Partnership Outreach Division's (POD) Programs and Information Sharing Office.** POD's Programs and Information Sharing Office has developed a specific requirement to develop and exercise Standard Operating Procedures (SOP) for establishing sector-specific Information Sharing Environments (ISE). As the five SOPs are completed within each sector, the SOPs will be validated through a discussion-based, tabletop exercise, with an after action report / improvement plan being developed to identify strengths and areas for potential improvement.

- **DHS Infrastructure Security Compliance Division (ISCD).** Within the Chemical Facility Anti-Terrorism Standards regulatory framework, ISCD frequently interacts with a range of businesses from very large to quite small. ISCD doesn't have a specific program dedicated to this interaction, but we tailor our everyday interactions to assist any stakeholder that needs help in achieving compliance, which frequently includes the owners of small businesses in the regulated community.

  - **Results.** The Inspections and Enforcement Branch has utilized six different small businesses for over $900,000 in procurements.

  - **Leveling the Playing Field.** In keeping with Office of Procurement guidance, ISDC sought to access small businesses in a reasonable portion of ISCD's normal procurement actions, including conducting a Sources Sought Notice to see if small businesses could respond to a procurement request for technical chemical engineering support.

IV. Increased U.S. Exports through the National Export Initiative

The National Export Initiative Promotes Exports by Small Businesses. On March 11, 2010, the President established the National Export Initiative (NEI) by Executive Order to help meet his goal of doubling U.S. exports over 5 years to create millions of jobs. Small businesses face particular resource hurdles, limiting the ability of many to participate in global trade. For example, small and medium enterprises (SMEs) are more likely to need external financing to undertake an export transaction, a particularly daunting task with the tightening of credit markets. In addition, SMEs face insufficient knowledge of foreign markets, in contrast with larger firms' access to market intelligence and direct presence in targeted foreign markets. Finally, SMEs face higher real and perceived risks of exporting. They have fewer resources to address trade barriers, and they are less likely to have a diversified foreign customer base.

The NEI addresses these challenges through five key priorities:

- Improving advocacy and trade promotion,
- Increasing access to export financing,
- Reduce barriers to trade,
- Enforcement of trade rules, and
- Promotion of strong, sustainable, and balanced growth.

In 2010, the first year of the NEI, exports contributed significantly to the United States' overall economic recovery. U.S. exports of goods and services totaled $1.83 trillion, supporting 10.3 million jobs.

Improving Advocacy and Trade Promotion. Under the National Export Initiative, the Export Promotion Cabinet and Trade Promotion Coordinating Committee agencies have increased their efforts to help U.S. companies export around the globe. For example, the Administration developed an enhanced client intake registration form on **www.export.gov**, the Federal government's export assistance web portal. The form enables agencies to more accurately identify new-to-export and new-to-market U.S. companies and refer them to the most appropriate Federal resources for personalized service. Once registered, companies will also receive a free three-month subscription to the U.S. Census Bureau's USA Trade Online and be positioned to receive customized marketing information in the future.

In 2010, the Obama Administration helped U.S. small businesses export for the first time or expand into new overseas markets through a number of programs:

- **Department of Commerce (DOC) Trade Missions and Trade Support.** In 2010, the Department of Commerce coordinated 35 trade missions to 31 countries with 401 participants and $2 billion in anticipated export successes. Small businesses represented 79 percent of all trade mission participants from 2008 to 2010. The International Trade Administration's U.S. and Foreign Commercial Service led this effort, with support on specific trade missions from the Department's Economic Development Administration and Minority Business Development Agency.

- **Economic Development Administration Trade Events.** EDA, the U.S. and Foreign Commercial Service (USFCS) and the *Invest in America* program (IIA) partnered to promote the Obama Administration's NEI, as well as Foreign Direct Investment (FDI) in the U.S., through international trade and investment events. By facilitating delegations drawn from regional innovation clusters, EDA is aiding U.S. communities in promoting their regions as attractive places to do business, while also helping U.S. companies identify new international export partners. The first trade event was to Hannover, Germany in April 2010 and took advantage of Hannover Messe, the world's largest industrial automation tradeshow. A second event, a trade mission, was to Lyon, France (leveraging the Pollutec tradeshow) and to Brussels, Belgium from November 28-December 4, 2010.

  - **New Trade Events.** As these missions have succeeded in generating export and FDI leads for participants, the Department plans to continue the trade event program, with events being planned in 2011 for early April to Hannover Messe again and to Montreal, Canada in May. The Montreal event will focus on the aerospace industry.

- **USDA Trade Shows.** Trade shows are one of the most effective tools to successfully link U.S. small businesses to foreign buyers of agricultural products. U.S. pavilions at international trade shows create national identity and visibility for all U.S. exhibitors. In CY 2010, USDA supported U.S. Pavilions at 27 international trade shows in 19 countries. As a result, nearly 1,000 exhibitors, most of which are small and medium sized businesses, reported $179 million of on-site sales, and over $1 billion of estimated 12-month sales. U.S. companies introduced over 6,000 new-to-market products, and made close to 16,000 serious business contacts at those shows. On average, 70 percent of the companies participating in these shows were small companies.

> Interface Associates, Inc. (Irvine, CA) is a manufacturer of balloons used for heart surgeries and the equipment used to make the balloons. Interface employs 124 people, and its annual sales are $20 million, 60% of which are international. Interface sought Ex-Im Bank's assistance in 2010 when both its private-sector insurer and its foreign receivables lender left the export finance arena. The solution was a $2 million Ex-Im Bank guaranteed working capital line of credit through Silicon Valley Bank.

- **USDA Reverse Trade Missions.** USDA made increasing the number of reverse trade missions a major focus in 2010. This campaign brought more than 2,400 foreign buyers together with U.S. small businesses as part of more than 240 such trade missions.

- **The Export-Import Bank of the United States (Ex-Im).** Developed largely in concert with the most forward thinking corporations, banks, and insurance companies, Ex-Im has intimate knowledge of legal systems, accounting standards, bank protocols, country risk, buyer credit risk and market conditions in all of these countries. Ex-Im brings that knowledge to small businesses, many of whom, have no other way of obtaining it. Ex-Im also brings the ability to finance the exporter as well as the exporter's foreign buyer. In order to expand the accessibility of this value, Ex-Im has initiated the following:

  - **Bank and Broker Training:** Ex-Im has quadrupled its training team and is expanding its bank and broker training options to include monthly trainings around the country, including onsite with banks. In addition to the DC-based main 3 day session, Ex-Im is creating a one-day, two-day and 1 and 2 hour sessions. The options include a system of regular webinars.

  - **Establishment of Veterans Outreach**: In 2010, Ex-Im created the new position of Veterans Outreach Coordinator. The purpose is to reach out to all veterans and veterans groups and to connect export finance opportunities with their knowledge of foreign cultures, peoples and businesses.

Q-Lab Corporation (Cleveland, OH) manufactures test chambers and surfaces, and provides testing services. Its weathering products and services are used by material scientists and technicians in numerous industries. The company has 60 employees. Q-Lab has been an Ex-Im Bank policyholder since 2000, with total shipments to date totaling over $23 million, $3.4 million in the past 7 months alone. Exports are concentrated in Asia; Hong Kong is the top market.

  - **Direct Calling on Minority and Women-Owned Exporters**: In order to expedite communication with Minority and Women-Owned Businesses, Ex-Im has established a "smart data-base" program. The program, which includes data from TPCC agencies, is designed to support direct outreach to Minority and Women-Owned exporters through systematic cold calling by experienced Ex-Im Bank export finance officers. While targeting the use of Ex-Im's trade credit insurance, the officers are also incentivized to refer the exporters to the appropriate DOC and SBA functions as reflected by the exporter's needs.

  - **Website.** In order to simplify and direct the inquiries to the Ex-Im 800 number and email contacts, Ex-Im revised its small business website. Instead of directing the inquiry to a product or a department, the site directs the client through a quick triage to get to the information that he or she would want in the normal conduct of developing a product or service for export. For more information please visit, **http://www.exim.gov/smallbusiness/**.

- **The Market Development Cooperator Program (MDCP).** This DOC program is designed to expand U.S. exports and supports the President's National Export Initiative. The MDCP provides Federal financial and technical assistance to trade associations, chambers of commerce, and other industry groups that are particularly effective in reaching and assisting SMEs. MDCP partnerships help to underwrite the start-up costs of competitiveness-enhancement projects, which these groups are often reluctant to undertake without Federal Government support. Since the program began in FY 1993, MDCP award winners have generated more than $3 billion in exports. When all projects funded between 1993 and 2009 are completed, the private sector will have invested more than $80.2 million to increase global competitiveness as a result of the U.S. Government's $29.3 million expenditure.

- **USDA Technical Assistance for Specialty Crops (TASC) Program**. Due to an extensive outreach effort by USDA in 2010 targeting the U.S. horticultural industry, the TASC program allocated more than $7.3 million (a record) in FY 2010 to 26 organizations representing hundreds of small businesses. TASC works to open, retain, and expand export markets for U.S. specialty crops.

- **National Outreach Campaign.** In the 2010 National Export Initiative Report to the President, the Export Promotion Cabinet recommended a national outreach campaign to inform and engage small businesses in exporting. In 2010 and 2011, federal agencies have embarked on a number of coordinated outreach events to achieve this goal:

  - **USDA SME Links to Canada**. In September, USDA hosted a major event for U.S. small and medium sized businesses in Canada. USDA staff highlighted the central role that Canada and small businesses play in NEI success, encouraging expanded small business outreach in that market. In Toronto, FAS presented an overview of NEI at the "Canada Concepts," an annual strategic planning seminar for U.S. agricultural trade groups, including State Departments of Agriculture.

  - **Global Access for Small Business.** On January 13, 2011, Ex-Im Bank launched Small Business Global Access in partnership with the National Association of Manufacturers, the U.S. Chamber of Commerce, and several financial institutions Ex-Im is sponsoring more than 20 *Global Access* forums for small businesses around the country in 2011. They bring exporters together with bank lenders, insurance brokers, other TPCC agencies and Ex-Im export finance specialists for one-on-one training in Ex-Im Bank

> Evergreen Building Products Association (EBPA) and Vanport International Inc.
>
> EBPA consists of building materials manufacturers, distributors, and service providers representing wood and non wood building materials. The association is based in Tacoma, WA but has members throughout the U.S. EBPA focuses on energy efficiency and earthquake resistant building technologies. EBPA is helping U.S. firms find customers in China's second- and third-tier Chinese cites by leading technical seminars and trade missions. EBPA organizes an annual U.S. pavilion at a China green building show. It identifies potential buyers for U.S. products, influences China building codes and standards, and provides market information to U.S. firms.
>
> Through EBPA's award and MDCP's match of $297,000, Vanport International, Inc., developed nine new customers in China. These new customers regularly buy $500,000 to $700,000 in wood products each month. The Oregon-based company has created or maintained at least 48 jobs due to sales to these new customers in China.

finance and insurance products. Members of Congress are engaged in co-sponsoring many of these events. Over 2,000 small businesses are targeted to attend during in 2011. In addition, to help meet the ambitious goals of *Global Access,* Ex-Im is also holding several webinars throughout the year and has developed a new small business portal on the Bank's website.

- **New Markets, New Jobs: NEI Small Business National Tour:** The Export Promotion Cabinet has embarked on a multi-city export outreach campaign organized by the Department of Commerce, intended to reach over 3,500 small and mid-size companies to promote the NEI. Participating agencies include the Departments of Commerce and Agriculture, SBA, USTDA, Ex-Im and USTR.

- **ExporTech Program.** For the past 4 years, the Department of Commerce's Manufacturing Extension Program (MEP), housed within the National Institute of Standards and Technology, and U.S. Export Assistance Centers (USEACs), housed within the International Trade Administration, have helped manufacturers increase their exports with the ExporTech program. The program assists manufacturers in developing an international growth plan, and provides experts who vet company plans and connect the companies with Federal, state and local organizations that can help them move quickly beyond planning to actual export sales. ExporTech is deployed nationally as a collaboration between MEP, USEACs and other partners, including District Export Councils, State Trade and Economic Development agencies, Export-Import Bank, SBA and the Appalachian Regional Commission.

Helping Minority-Owned Firms Export. In support of the President's National Export Initiative to double U.S. exports, MBDA is focused on helping minority-owned firms to export. Minority-owned firms are already twice as likely to export compared to non-minority-owned businesses. Helping our economy grow requires access to foreign markets and improving the ability and competitiveness of minority-owned companies to sell to these markets.

- **Trade Events.** MBDA has increased promotion of trade events and international trade fairs with minority businesses, such as the Commerce Secretary's Trade Mission to India and the Hannover Messe International Trade Fair in Hannover, Germany. In addition, MBDA is partnering with the International Trade Administration (ITA) to train Business Development Center staff on counseling minority business enterprises on exporting, developing referral relationships with ITA's U.S. Export Assistance Centers, and partnering with the Overseas Private Investment Corporation (OPIC), Export-Import Bank and the U.S. Trade and Development Agency (USTDA) to open the global marketplace for products and services from the minority business community.

  - **Continued Support.** MBDA will continue to encourage its database of minority entrepreneurs to participate in the global marketplace by developing a global strategy for business development and by leveraging the natural advantages of MBEs on the international stage.

- **DOC Task Force on China.** MBDA has played a leadership role in the Commerce Department's efforts to engage the People's Republic of China. MBDA understands the importance of exports to America's economic recovery and job creation and the need to connect small and medium-sized businesses with foreign buyers in order to assist them in selling more of their products overseas and hiring more workers in America.

- **CommerceConnect.** CommerceConnect is a U.S. Department of Commerce initiative launched by Secretary of Commerce Gary Locke in October 2009 to make businesses more competitive and create jobs by better integrating the Commerce Department's business services. MBDA has aggressively supported this initiative by providing senior staff members to assist with the development and rollout of this initiative in the field.

  - **New Pilot Locations.** MBDA will continue to support CommerceConnect's mission of assisting businesses at every point of their life cycle by training all MBDA Business Centers to be CommerceConnect service providers. This action will add 30 additional sites to the CommerceConnect network.

Increasing Access to Export Financing. Access to credit remains a major issue for exporters, especially small businesses. The trade finance agencies –SBA, Ex-Im Bank, and USDA – have taken steps to expand or maximize the use of their export credit programs.

- **Increased Trade Support through the Small Business Jobs Act.** The Small Business Jobs Act provides for increased SBA support for small business exports. Select provisions include:

  - **A Permanent Export Express Loan Program.** The Export Express pilot loan program became a permanent program with 90 percent guarantees for loans up to $350,000 and 75 percent for loans up to $500,000.

  - **Permanent Higher Loan Limits for Export Working Capital Program (EWCP) and International Trade Loans.** The Act significantly increases the maximum loan sizes for EWCP and International Trade Loans to $5 million.

  - **State Trade and Export Promotion (STEP) Grants Pilot.** The law authorized $30 million per year for the next three years in competitive grants for states to assist business owners to expand their exporting.

- **A Winning Track Record.** Since FY 2005 SBA has supported more than 15,000 international trade-related loans worth over $4 billion and has trained and counseled in excess of 30,000 small businesses on international trade topics.

- **New Services from the Export-Import Bank of the United States.** In 2010, the Ex-Im Bank generated $5.0 billion in authorizations for small businesses up from the $3.2 billion in 2008. These represent over 20 percent of total Ex-Im authorizations. Small business approvals have numbered over 85 percent of all authorizations, rising from a total of 2328 in 2008 to 3091 in 2010. In 2011 the Bank is on track for a 20 percent increase to $6 billion. In addition to its traditional Short, Medium, and Long Term Loan, Guarantee and Insurance products for exporters and their buyers, Ex-Im has initiated the following programs:

  - **Supply Chain Finance**. Devised as a new product in 2010, the Supply Chain Finance facility enables small business suppliers to large exporters to borrow at reduced rates, minimize their need for borrowing, maximize cash flow, and more precisely manage their risk. Ex-Im has already approved about $500 million in these facilities for suppliers to two large U.S. exporters which will make credit available to over 1,000 of their small business suppliers.

  - **Express Insurance**. Designed in 2010 specifically for small businesses, Express Insurance reduces the time frame and the complexity of insurance that small businesses obtain to protect their export receivables from foreign buyer and country risk. The application is reduced by half, the product is simplified and the target turnaround time for a quote is 5 days. The product is has already been finalized and is expected to generate over $250 million in authorizations a year once fully deployed.

> Dan's Fish, Inc. (Sturgeon Bay, WI) has grown to be Wisconsin's largest exporter of Great Lakes fish and caviar, selling primarily to Sweden Finland, and Estonia. Founded in 1994, this 15-person company utilizes a $500,000 Ex-Im Bank insurance policy together with a $500,000 SBA Export Working Capital loan to fund its working capital needs. In policy year 2010, they reported exports of $3.3 million as compared to $2.2 million in exports the previous year.

- **USDA Support for SMEs.** USDA market development programs support the efforts of U.S. companies, including small businesses, to build and maintain commercial markets overseas for hundreds of food and agricultural products. USDA's partners in developing trade at the state level specifically focus on supporting small and medium sized business export efforts. In CY 2010, through its partnerships with State Departments of Agriculture, USDA allocated $29.1 million to 802 small U.S. agricultural companies to carry out promotions of their branded products around the world. These programs are some of the initiatives and tools designed for U.S. small businesses to increase their presence overseas.

- **USDA Trade Facilitation Desk.** In response to concerns of U.S. agribusinesses, including small businesses, USDA launched a Trade Facilitation Desk (TFD) to help clarify and identify the documentation required to successfully export food and agricultural products. The TFD serves as an "ombudsman" and key point of contact for exporters, small and large, seeking assistance and guidance on our trading partners' import requirements. The TFD also provides assistance with shipments that are detained at port of entry, including expeditious outreach to foreign governments and U.S. regulatory agencies to minimize the costs associated with detention of the shipment.

- **USDA Export Credit Guarantee (GSM-102) Program.** The GSM-102 Program provides credit guarantees to encourage financing of commercial exports of U.S. agricultural products. In CY 2010, the GSM-102 Program facilitated the export of approximately $3.2 billion in agricultural products. In continued efforts to expand knowledge and use of the GSM-102 Program, USDA implemented a "contact the exporter" procedure benefitting small, new-to-export firms. This procedure offers assistance in using the program and introduces firms to a contact person, who can provide necessary information for successful program usage.

Joint Efforts. USDA also increased its efforts to reach small, new-to-export businesses in collaboration with other U.S. Government export finance partners. USDA staff participated in joint seminars and conferences with the Ex-Im Bank, the SBA, and the DOC. These joint efforts have enhanced interagency coordination on export finance and ensured that conference participants (including exporters and financial institutions) are made aware of the full gamut of U.S. Government export finance opportunities.

International Small Business Collaboration. The Obama Administration understands that it is difficult for small businesses to make connections overseas. These programs help to remedy that problem.

- **Middle East Partnership Initiative.** SBA Office of International Trade received a 2008 Middle East Partnership Initiative (MEPI) grant from the State Department to assist women owned small businesses in the Middle East. The SBA has currently signed MOU's for collaboration with Oman, Bahrain, and Tunisia. SBA is moving forward and helping build programs in the three countries that support small business through counseling and capital initiative modeled on SBA's successful programs.

- **SBA International Visitors Center**. The SBA International Visitors Center works closely with foreign dignitaries and business leaders to provide key information on the U.S. economy and SBA's unique support structure for small businesses. In FY 2010 the office met with over 1,000 visitors from 115 countries, 452 of the visitors from China. Additionally, the office has met with over 900 visitors from 42 countries thus far in FY 2011 (as of 4/30).

- **Russian Federation MOU.** SBA signed an MOU with the Russian Federation Ministry of Economic Development in March 2010 for bilateral cooperation on issues related to Small and Medium Enterprises.

Reduce Barriers to Trade. Under the National Export Initiative, the Administration has made a renewed effort to reduce barriers to overseas markets, particularly overseas. Tariff barriers, burdensome customs procedures, discriminatory or arbitrary standards, and lack of transparency relating to relevant regulations in foreign markets present particular challenges for our SMEs selling abroad.

- **New Assistant U.S. Trade Representative for Small Business.** On January 21, 2010, Ambassador Kirk designated an Assistant U.S. Trade Representative for Small Business, Market Access and Industrial Competitiveness. This new attention to small business issues will enhance work on market access and industrial competitiveness issues.

- **Pending Free Trade Agreements.** The Administration has resolved outstanding issues with the pending trade agreements with Korea, Panama and Colombia, and is working in cooperation with Congress to secure approval of these landmark agreements as soon as possible. These agreements will open these important markets to U.S. exporters by lowering duties on many U.S. exports, and addressing non-tariff barriers that impact many small businesses.

- **Trans-Pacific Partnership.** The Trans-Pacific Partnership (TPP) is a key initiative through which the Administration seeks to advance the United States' multi-faceted trade and investment interests in the Asia-Pacific region, by negotiating an ambitious, 21st regional trade agreement. In addition to the high-standard, market opening elements of current U.S. trade agreements, the TPP will feature cross-cutting issues not tackled in previous trade agreements including strengthening small and medium-sized enterprises through greater participation in international trade.

- **Commerce's Trade Agreements Compliance Program.** Since the start of the NEI, the Department of Commerce's Trade Agreements Compliance Program has initiated 91 investigations of foreign trade barriers affecting small business, and successfully resolved 53. Examples include removing the burdensome and non-transparent Chinese certification requirements affecting a York, Pennsylvania, specialty refrigerator company, and ensuring that Chile provides procedures for all U.S. companies to obtain advance rulings on customs matters, increasing predictability which is particularly useful to resource-constrained small businesses.

- **Protecting Intellectual Property Rights (IPR).** The DOC has undertaken numerous activities to assist SMEs to protect and enforce their IPR, both in the United States and abroad. The DOC launched **www.stopfakes.gov** to enable businesses to file complaints, concerns, and questions about IPR-related trade problems, which are answered within ten days by a trade specialist from the Office of Intellectual Property Rights. The DOC also established the 1-866-999-HALT hotline answered by U.S. Patent and Trademark Office (PTO) IPR experts, who work with the Office of Intellectual Property Rights to help businesses secure and enforce their IPR through international treaties.

- **Russian Federation / New Strategic Arms Reduction (START) Treaty.** New START Treaty represents the most significant arms control agreement in nearly two decades was passed in a bipartisan fashion. In doing so, the Government has strengthened American leadership on non-proliferation issues, reinforced our relationship with a vital ally, and made our country safer. As a part of this relationship "reboot", SBA signed an MOU with the Russian Federation on SME collaboration

Robust Enforcement of Trade Rules. The Obama Administration is fully aware that efforts to enhance U.S. commercial competitiveness and to maximize the potential of U.S. exporters can be thwarted by market distorting unfair trade practices of foreign governments and firms. Ensuring that U.S. companies and workers have the opportunity to compete on a level playing field is thus critical to advancing business competitiveness in the U.S. and abroad, and is a key component of the NEI.

The Administration actively monitors foreign government compliance with trade agreements to which the United States is a party and pursues enforcement actions, using dispute settlement procedures and applying the full range of U.S. trade laws when necessary.

- **Antidumping and Countervailing Duty Laws**: At the end of 2010, Commerce's Import Administration (IA) maintained approximately 300 antidumping (AD) and countervailing duty (CVD), covering over 120 products from 40 countries. Roughly 36 percent of these orders are on products from China.

- **Counseling SMEs about Recourse from Unfair Trade Laws**: Small and medium size enterprises (SMEs) and their workers are a critical driver of growth and innovation in the U.S. economy. Because such firms are often unaware of the range of relief that the AD/CVD laws can provide to remedy trade distorting practices, IA's Petition Counseling and Analysis Unit regularly advises SMEs about the recourse that the unfair trade laws can provide. In FY 2010, IA conducted over 100 of these types of counseling sessions with U.S. companies, over two-thirds of which were with SMEs. In addition, IA provided assistance to nearly 100 exporters facing foreign trade remedy actions. These companies include major U.S. manufacturers, small- and medium-sized exporters, and producers of key agricultural exports. Together, these firms employ more than 1.6 million Americans and have substantial operations in more than 35 states.

Macroeconomic Support for Expanded Exporting. In addition to U.S. productivity growth and export competitiveness, the most significant determinant of U.S. export growth over the next few years will be the economic growth of its trading partners. In the short term, working to sustain a strong global economic recovery is likely to deliver the biggest contribution to U.S. export growth. But this will require concerted and continued efforts by the United States and its G-20 partners to ensure that the global economy shifts smoothly to more diversified sources of economic growth. Over the medium and longer term, the composition of economic growth in the United States' trading partners will also be crucial to U.S. export growth. A broad range of countries need to take policy actions that reduce their surpluses by stimulating domestic demand (especially consumption), thereby increasing their demand for imports. Strong, sustainable, and more balanced global growth is crucial to U.S. export growth.

V. Enhanced Development and Education Opportunities for Entrepreneurs

Development Programs for Entrepreneurs. In discussions with entrepreneurs across the U.S., the Obama Administration has learned that many times small businesses and entrepreneurs need mentors and partnerships in order to continue to grow. Building off those conversations, the President has implemented these programs to connect entrepreneurs with experienced individuals and organizations so they can further develop their business and create jobs.

- **SBA network of over 14,000 Counselors Provide Counseling and Training to U.S. Small Businesses.** Over 1.5 million entrepreneurs and small business owners were counseled or trained in FY 2010 through SBAs vast network.
  - **SCORE, Counselors to America's Small Business.** SCORE has over 11,000 volunteers that bring practical experience to small businesses and to entrepreneurs thinking about starting a new small business.

> Pauline Lewis of Oovoo Design didn't fully realize how life-changing one introductory class at the Women's Business and Small Business Development Center in Springfield, Virginia could be when she signed up four years ago. Within weeks of taking the class, she quit her day job as a successful international market researcher and headed east on a backpacking trip through Vietnam. During her trip Pauline was invited to observe a women's cooperative. "From the moment I stepped into the small house where eight women were sitting in an embroidery circle, I knew that I wanted to work with them. I knew right then and there that I would have a company that incorporated embroidery, for women by women." The seeds of what she learned back in Virginia during her class at the Women's Business Center started to take root in Vietnam and Oovoo Design was born.
>
> Now, Pauline has successfully co-designed, marketed, and sold her unique handbags for seven seasons. She sells to over 500 boutiques, galleries, and museum stores. In addition to creating a niche market of hand-crafted artisan bags, Oovoo Design is a socially responsible company that continues to work with women's cooperatives in Vietnam. Pauline plans to expand Oovoo Design into other product categories and work with women's cooperatives in Cambodia and Laos.

  - **Small Business Development Centers (SBDCs).** SBDCs provide free or low-cost assistance to small businesses using programs customized to local conditions. SBDCs offer counseling in marketing and business strategy, finance, technology transfer, Government contracting, management, manufacturing, engineering, sales, accounting, exporting, and other topics. SBDCs are funded by grants from the SBA and matching funds. There are more than 900 SBDCs with at least one in every state and territory.
  - **Women's Business Centers (WBCs).** WBC is a large network throughout the United States, offering women entrepreneurs, especially those that are socially or economically disadvantaged, comprehensive training and counseling to help them start and grow their own business. In FY 2010, four new WBCs were launched, bringing the total to 110

centers nationwide that offer training technical assistance, and advice that women entrepreneurs need.

- **Support for Veterans.** SBA provides extensive support for veterans through collaboration with Veterans Affairs for cross-training on veteran programs; All of this is through the Veterans Task Force.

- **Project GATE.** Project GATE (Growing America Through Entrepreneurship) was initiated in 2002 to emerging entrepreneurs create, sustain, and/ or expand their existing small business. Approximately 4,200 individuals in Maine, Pennsylvania, and Minnesota received GATE Program services in an experimental research project (importantly, the original project GATE was not limited to unemployment insurance recipients or even to the unemployed). Project GATE was found to increase the speed of business opening among participants, and to increase the longevity of their businesses, although it did not increase overall earnings when considering earnings from both self employment and wage and salary work. The program's evaluation also concluded that its salutary effects were particularly strong among workers receiving unemployment insurance benefits, and suggested that the program could be replicated on a wider and cost-effective scale. However the program evaluation also noted tailoring the outreach to assess specific community interest and needs, and identifying existing community-based organizations with which to partner, would need to be a priority

  - **Project GATE II.** Project GATE II began in July 2008, with grant awards to four states – Alabama ($1 million to serve 600 participants statewide), North Carolina ($1.6 million to serve 720 participants in 9 rural counties), Virginia ($1.9 million to serve 225 participants in Northern VA), and Minnesota ($2 million to serve 500 participants statewide). Unlike Project GATE demonstrations (available to all applicants in the original demonstration sites), services under the new program were targeted towards dislocated workers. Two states (AL and NC) were selected to target services to rural dislocated workers while two other (VA and MN) targeted dislocated workers 50 years and older.

  - **Minnesota.** Minnesota participated in both Project GATE and GATE II. During both iterations, Small Business Development Centers (SBDCs) in both Minneapolis and Duluth connected GATE participants with SCORE counselors to serve as mentors towards the end of the training. One of the lessons learned was that these connections were more successful when participants were introduced to SCORE counselors earlier in the process. Mentoring is most effective at the point of business creation and initial start-up, when business owners have the greatest number of questions about bookkeeping, marketing, and other issues. Earlier integration of SCORE mentoring has been a focus in Minnesota during GATE II.

  - **Maine.** The locations served under the original Project GATE included three rural areas in Maine. At these locations, training was frequently delivered using distance-education techniques, including classes conducted via webinar and conference call. These services were highly sought after and well-regarded, and could provide a model for providing training in remote areas, especially as the Administration presses forward with efforts to expand access to broadband internet in rural areas.

- **Virginia.** In Virginia, Project GATE II services are being offered as part of the full menu of resources available to dislocated workers (in this case, only those over 50). Virginia is also hosting "entrepreneur club" sessions for GATE II participants. These sessions allow participants to meet weekly to discuss their startups, building a sense of community and camaraderie. They have also invited local business owners to make presentations on topics such as taxes, insurance, marketing, etc. Attendance has been excellent to date.

- **North Carolina.** North Carolina is using local community colleges as the main service provider to deliver GATE II services to rural dislocated workers. The local workforce investment board (LWIB) refers dislocated workers interested in GATE II to the community college for classes. North Carolina has established an entrepreneurship training network within the state that leverages inexpensive community college training as the main focal point of the program. Enrollment in this program has far exceeded expectations.

Programs for Traditionally Disadvantaged Groups. These programs and initiatives offer traditionally disadvantaged socioeconomic groups resources to start or develop their own business.

- **Strengthening Programs that Reach Women Business Owners.** In October 2010, the SBA, National Women's Business Council, and the White House Council of Women & Girls co-hosted the White House Women's Entrepreneur Conference. Since then, SBA has continued regional events across the country to hear directly from women who are building and growing companies in many industry sectors. In 2010, after receiving extensive public comment, SBA published a final comprehensive rule implementing the statutorily-authorized program to create additional opportunities for women-owned small businesses to participate in Federal procurement. In 2009, women-

> Jennifer Lynch, The Portland Smoothie Company
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> "As soon as I showed up to MCNW (MercyCorps Northwest) and enrolled in the foundations business class with 25 other people and began talking about my idea, all of a sudden it became more than just an idea. It became something that I could actually do.
>
> I was living in New York and I had a career there until, just like everyone else, I got laid off. I needed a huge change in my life, so I left all that behind and came here to Oregon. I just decided that the little idea I had in my head for so long was maybe an idea I should act on. My highest sales day was on a really hot day in summer when I proved that I can handle it all on my own.
>
> In the short term, I definitely want to grow the business and hire employees. In the long term, my larger goal is a Bed and Breakfast with a farm to table organic vegetarian restaurant."

owned small businesses won $16 billion in Federal projects and this new program will enable greater numbers of women-led companies to compete for potentially billions of Federal contracting dollars.

- **DOC Report on Women-Owned Businesses in the 21st Century for the White House Council on Women and Girls.** This report, issued October 2010, documents the changes in women-owned businesses over time, explores disparities in the characteristics of businesses owned by women as compared to those owned by men, and discusses potential reasons for these disparities and the different outcomes that are associated with them. The focus is on proprietorships, partnerships, or any type of privately-held corporation with one or more owners and publicly held companies are not included. This report is available for download at **www.esa.doc.gov/sites/default/files/reports/documents/women-owned-businesses.pdf**.

  - **Growth Rates.** The number of women-owned businesses has grown over time. Between 1997 and 2007, the number of women-owned businesses grew by 44 percent, twice as fast as men-owned firms, and, as found in *Women-Owned Businesses in the 21st Century*, they added roughly 500,000 jobs while other privately-held firms lost jobs. In part, this is because women-owned firms were more likely to be located in industry sectors that experienced employment growth, such as health care and education services.

  - **Minority Women-Owned Businesses.** Between the years 1997 and 2002, the number of businesses owned by minority women increased faster than those owned by non-minority women, with minority women-owned firms accounting for more than half of the increase in women-owned businesses.

  - **Size.** Women-owned businesses are typically smaller than men-owned businesses. Although women own 30 percent of privately-held businesses, these businesses account for only 11 percent of sales and 13 percent of employment among privately-held companies. Average sales/receipts for women-owned businesses are only 25 percent of average sales/receipts for men-owned businesses. However, women-owned businesses are concentrated in industry sectors where firms are typically smaller.

  - **Methods of Financing.** There are substantial differences in the financing utilized by women-owned versus men-owned businesses. Women start with less capital than men and are less likely to take on additional debt to expand their businesses. They are more likely than men to indicate that they do not need any financing to start their business. It is difficult to distinguish preferences from constraints in these data. For instance, women may encounter less favorable loan conditions than men. They may be less willing to take on risk by seeking outside capital.

- **Portraits of Women Business Owners.** The characteristics of self-employed women are similar to those of self-employed men. Compared to the non-self-employed, self-employed women and men are older, more likely to be married, and less likely to have children at home. However, women who are self-employed work fewer hours on average in their business than self-employed men.

- **Increasing Support for Veteran Small Business Ownership.** SBA launched an Interagency Task Force on Veterans Small Business development, including members from OMB, the Department of Labor (DOL), GSA, DOD, VA and Treasury, as well as four public members. SBA also launched, in partnership with Syracuse University, and in-depth small business counseling and training program for veterans and their families.

- **Support efforts to increase Youth Entrepreneurship.** SBA has launched effort in conjunction with the White House to focus on the needs of the young entrepreneurs to create a better environment for young business leaders. Specifically, the SBA is focused on learning their needs, and connecting them with our resources.

  - **Empowering Young Entrepreneurs NYC Event.** In conjunction with the White House Office of Public Engagement and Russell Simmons, SBA will host an event in New York City, to celebrate and promote the launch of a broader nationwide initiative focused on young entrepreneurs. The proposed agenda provides for a robust conversation of current resources, additional needs of this community, and an exciting launch of a broader initiative.

- **Emerging Leaders Program (formerly Emerging 200 or e200).** The Emerging Leaders Program identifies SMEs that show a high potential for growth. Through eight months of specialized training, the Emerging Leaders Program provides SMEs with the network and resources required to build a sustainable business and promote economic development within communities across the country. The majority of these businesses are drawn from underserved communities. Approximately 680 small businesses in urban and Native American communities have participated in this training since the initiative's inception in 2008. The results of the Emerging Leaders initiative show nearly 60 percent have hired new workers, with over 500 new full-time employees created in 2009 alone. In addition, participants reported increased revenues over the past year, have leveraged nearly $10 million in new financing, and 58

> Lex Dominey, owner of the construction firm Rocket, Inc, participated in SBA's 2008 Emerging 200 Training Initiative (e200), which he credits with, "Rocket's survival during the worst economy for the construction industry since they started keeping track."
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> "This class happened at a time when my industry was crashing—a serious contraction in construction volume occurring in every segment," Lex said. "E200 really gave me a road map to expansion, understanding and learning. The feedback from the other CEOs added a different outlook. The financial section of the class gave me a financial dashboard that will allow us to manage with confidence our existing business and to understand what we need for expansion."

percent of participating businesses have obtained Government contracts. The 2010 Emerging Leaders training cycle included over 300 small businesses enrolled in 22 cities across the country. The data results demonstrating the impact and outcomes of the 2010 graduates will be available in 2011.

- **Disability Employment Initiative.** The Department of Labor's Employment and Training Administration and Office of Disability Employment Policy are collaborating to implement the Disability Employment Initiative within the public workforce system and its partners. Grants are awarded to states to build capacity for serving people with disabilities. Self-employment and entrepreneurship training was one of several strategies on which states could focus their efforts.

Enhanced Regional Economic Competitiveness. Competitive, high-performing regional economies are the building blocks of national growth. Regions have coordinated and focused their resources to accelerate Innovation, economic development, business development and workforce development around promising industry areas. This year, under leadership from the White House, Federal agencies are working together to support these regional partnerships, including the DOC's Economic Development Administration (EDA), Manufacturing Extension Partnership program, and International Trade Administration, the Department of Education, the DOL and SBA. These initiatives were designed to develop and support regional innovation cluster programs across the Government:

- **The Jobs and Innovation Accelerator Challenge.** The Obama Administration has announced the Jobs and Innovation Accelerator Challenge (Accelerator Challenge), an initiative of 16 Federal agencies and bureaus to accelerate innovation-fueled job creation and economic prosperity through public-private partnerships. The Accelerator Challenge will offer, subject to the availability of funds, a combination of $33 million in funding from three agencies and technical assistance resources from 13 additional agencies and bureaus to support customized solutions for approximately 20 competitively selected industry clusters in urban and rural regions across the nation and across all sectors. A competitive solicitation is expected to be announced in late May 2011. For more information please visit **www.eda.gov/InvestmentsGrants/jobsandinnovationchallenge.**

  - **Leveraging Private Investment.** Each Accelerator Challenge investment will serve as a catalyst for leveraging private capital in the regions from an array of sources such as foundations, financial institutions, corporations and other private sector partners. Through its unprecedented linking, aligning and leveraging of Federal resources and by building strategic public-private partnerships, the Accelerator Challenge will foster broad regional innovation, job creation, and global competitiveness.

  - **Outcomes.** Funds awarded to the winning applicants can be used to support and accelerate a range of measurable outcomes, including innovation, commercialization, business formation and expansion, development of a skilled workforce, job creation, exports, sustainable economic development and global competitiveness in approximately 20 industry clusters that exhibit high-growth development potential. These successful clusters will promote growth that is inclusive of the region's population.

- **Focusing on Priorities.** This initiative represents the implementation of a number of Obama Administration policy priorities including:

    - **Acceleration** of bottom-up innovation strategies encompassing urban and rural geographies, as opposed to imposing "one size fits all" solutions from Washington.

    - **Reduction** of Federal programs silos and promotion of more coordinated Federal funding opportunities that offer a more efficient system for customers to access Federal resources.

- **Energy Regional Innovation Cluster (E-RIC).** DOE worked with six agencies to ensure its $125 million Hub investment in Green Building research would support economic, business and workforce development in the winning region. Together, the agencies involved in this effort are awarding nearly $130 million over 5 years for the Greater Philadelphia Innovation Cluster, which was selected for this project. The SBA provided over $150,000 to its partner Small Business Development Center, which is working to include regional small businesses in energy efficient building projects.

- **SBA Innovative Economies Initiative.** SBA provided nearly $6 million in funding to 10 regional economies across the country to help develop and grow small businesses in key industry supply chains. These Regional Innovation Clusters are working in focus areas that include, but are not limited to, smart grid, nuclear technology, hydrogen fuel cell technology, agriculture technology, flexible electronics and geospatial technology; and three of them focus particularly on technologies with defense applications, including aerospace and cyber security.

- **Clustering for 21st Century Prosperity: A Symposium.** Hosted by the National Academies and the Association of University Research Parks, this symposium discussed the best practices for public-private, cluster-based economic development. Presenters included Ginger Lew of the National Economic Council and John Fernandez of the EDA. A link to the proceedings is available at: **http://sites.nationalacademies.org/PGA/step/PGA_056081**.

- **Governor's Guide to Cluster-Based Economic Development.** The EDA, the DOL, and a variety of foundations funded a study by the National Governors Association to develop regional innovative strategies to accelerate the US economy in the face of global competition. The report is available at: **http://www.eda.gov/PDF/NGA_CLUSTERS.pdf.**

- **Unlocking Rural Competitiveness through Clusters.** In a partnership with Indiana University and Purdue University, the EDA funded research to develop a model that can be used by America's rural communities. Indiana University and Purdue University used this funding to assess and maximize Indiana's regional economic advantages. Their work is available at: **http://www.ibrc.indiana.edu/innovation/**.

- **Enhanced Outreach through Website.** SBA has developed a new SBA website, which serves as a "one-stop-shop" for all SBA has to offer for small business support. Find the new and improved SBA website at: **http://www.sba.gov/**.

Improving America's Entrepreneurial Infrastructure. President Obama understands that the key to the U.S.'s historic and future economic success is America's unique culture of entrepreneurship. The U.S. has always been a place of great opportunity and offered great reward for those that took a risk and began their own enterprise. This is why President Obama is committed to making sure the U.S. Government does all it can to make starting businesses easier and remove barriers to growth.

- **National Advisory Council on Innovation and Entrepreneurship (NACIE).** Convened by the DOC to support President Obama's innovation strategy, NACIE develops policy recommendations that foster entrepreneurship and identify new ways drive economic growth and create jobs. Managed by EDA's OIE, NACIE strives to ensure that the United States remains the source of paradigm changing innovations and the companies that deploy them. Members of the active council include successful entrepreneurs, investors, and university and non-profit leaders. For more information, please visit NACIE's website at: **www.eda.gov/nacie**.

- **Improving the Patent Process.** The U.S. Patent and Trade Office (USPTO) provides a 50 percent fee reduction, among other things, to small entity inventors and has an array of services designed for them. In addition, several "acceleration initiatives", for patents related to sectors like green tech, have benefited small businesses by significantly shortening the amount of time it has taken to receive a patent.

- **Department of Labor Supports Startups.** Currently, eight states—Delaware, Maine, Maryland, New Jersey, New York, Oregon, Pennsylvania, and Washington—have an unemployment insurance (UI) provision known as SEA, which waives regular work search requirements for claimants who are working full time to establish their own small business, instead providing them with a weekly SEA allowance. The program is available to workers who are eligible for UI and profiled as being likely to exhaust their UI benefits. Benefits equal to those they would have received under UI are paid out over 26 weeks using funds from the state's unemployment trust fund. During this time, the individuals are exempt from work search and availability requirements, but are required to participate in activities like entrepreneurial training and business counseling.

Educating Americans with 21st Century Skills and Create a World-Class Workforce. Only with strong educational foundations will Americans create the leading ideas of the 21st century and ensure that these ideas diffuse throughout the American workforce. On many metrics, however, including college graduation rates, America has slipped behind other countries. The U.S. must reform its education and workforce training systems to ensure Americans are qualified for the jobs of tomorrow. This imperative underpins the Obama Administration's focus on education reform in general and in science, technology, engineering, and math (STEM) education in particular. It is also imperative to extend STEM educational and career opportunities to women and minority groups that are underrepresented in these areas, so that all Americans can find quality jobs and lead our innovative economy in the decades ahead. When it comes to entrepreneurship, empirical data suggests the link is clear: the greater the amount of schooling, the greater the likelihood of forming a small business. Heads of households with some college are 3.3 percent more likely than those without college to be self-employed, while those with a bachelor's degree are 4.4 percent more likely to be self-employed, and those with some graduate level of training are 8.3 percent more likely to be self-employed.

- **The America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science (COMPETES) Reauthorization Act of 2010.** This Act authorized basic research, programs aimed at boosting science, technology, engineering and math education and other measures aimed at promoting U.S. innovation. Additionally, the Act is designed to leverage existing agency programs and promote inter-agency cooperation.

- **Race to the Top.** The Administration launched "Race to the Top," a program designed to spur systemic reform and embrace innovative approaches to teaching and learning in America's schools. Improvement to U.S. schools is vital to small businesses, since, as of 2009, less than 30 percent of the workforce had attained a bachelors degree or higher.

- **Post-9/11 G.I. Bill.** The Obama Administration is committed to funding and implementing the Post-9/11 G.I. Bill—a bill to give veterans and their families an opportunity to earn a college education.

- **Skills for America's Future Program.** This public-private partnership brings together businesses, nonprofits, and schools to train Americans for the jobs of a new century through the Skills for America's Future program, an initiative designed to have businesses and community colleges work together to match the work in the classroom with the needs of the boardroom. This is essential, given that 47 percent of the workforce's education level is between high school completion and some college or associate's degrees.

- **Improved Access to Higher Education.** The Obama Administration has invested in our community colleges, and reformed our student loan system by limiting payment to up to 10 percent of income, so that loan payment never overburdens students earning a college education

Educating Entrepreneurs and Small Businesses about Security Concerns. Although entrepreneurs are familiar with risks, they may not be familiar with these particular types of risks. These programs are designed to ensure that entrepreneurs and small business owners know how to best prepare and protect their colleagues and businesses in the event of an emergency.

- **DHS Office of Infrastructure Protection's Protective Security Coordination Division (PSCD).** To support Infrastructure Protection's mission, PSCD deployed 94 Protective Security Advisors (PSAs), including 87 field personnel deployed to 74 Districts in 50 States and one Territory to serve as critical infrastructure security specialists in local communities across the country. PSAs are liaisons between Federal, state, local, tribal, and territorial governments and the private sector, providing access to DHS infrastructure resources such as facility security and vulnerability assessments, threat information, training, and incident response support. PSAs conduct dedicated outreach to private sector businesses, large and small, to promote public-private sector relationships and information sharing.

- **DHS Bomb-Making Materials Awareness Program (BMAP).** DHS, in cooperation with the Federal Bureau of Investigation, developed BMAP to increase public and private sector awareness of homemade explosives (HME), a common terrorist improvised explosive device (IED) tactic. BMAP assists local law enforcement agencies through training to engage a wide spectrum of private sector establishments within their jurisdictions that manufacture, distribute, or sell products that contain HME precursor chemicals.

  - **BMAP Outreach Materials.** BMAP Outreach Materials are provided by law enforcement to local businesses, many of whom are small or independently owned, help employees more easily identify relevant HME precursor chemicals and other critical IED components of concern, such as electronics, and recognize suspicious purchasing behavior that could indicate bomb-making activity. BMAP simultaneously encourages stronger relationships between businesses and local law enforcement and reinforces the foundation of effective community safety and security.

  - **BMAP Products.** BMAP products consist of reference materials, hand-outs, and posters that specifically address pre-cursor materials and suspicious behavior, and detailed and industry-specific awareness and indicator guides. Also, IP maintains a catalog of training programs to develop awareness of terrorist threats to critical infrastructure among State, local, and private sector entities and educate participants on strategies for detecting and mitigating these threats. Since its inception, IP has provided training to over 32,200 state, local, tribal, territorial agencies and critical infrastructure owners and operators.

- **DHS Cybersecurity Education.** Through the Information Technology sector trade associations that are Sector Coordinating Council members, DHS has helped small businesses learn more about national cybersecurity and infrastructure protection efforts and to examine risk from a sector perspective.

- **Office of Cybersecurity and Communications' National Cyber Security Division.** The United States Computer Emergency Readiness Team (US-CERT) public website, **www.us-cert.gov**, provides a number of different types of information that can be very useful to the small business community. For example:

  - **The National Cyber Alert System (NCAS)** provides Technical Cyber Security Alerts (security issues, vulnerabilities, and exploits for technical users), Cyber Security Alerts (security issues, vulnerabilities, and exploits for non-technical users, Security Bulletins (weekly summaries of new vulnerabilities), and Cyber Security Tips (advice about common security issues for the general public).

  - **Current Activity.** This section provides frequently updated summaries of high-impact security issues such as notifications of security updates by software vendors.

  - **Security Publications.** These publications offer both technical and non-technical papers on such topics as securing web browsers, avoiding email scams, cyber threats to mobile devices, and computer forensics.

- **SwA Forums and Working Group Sessions.** Four times per year, under the co-sponsorship of organizations within the DHS, the Department of Defense (DOD), and the National Institute of Standards and Technology (NIST), the SwA Forum and Working Group Sessions provide a "no-cost" public venue for participants to share their knowledge and expertise in software security while interacting and networking with key leaders in industry, government, and academia. The gatherings are unique in focus by bringing together a stakeholder community to protect the Nation's key information technologies, most of which are enabled and controlled by software. The SwA Forum and Working Group Sessions are means for fulfilling the Open Government Initiative, reflecting the three principles of transparency, participation, and collaboration. The schedule for the upcoming SwA events and presentations from past SwA Forums are located at: **https://buildsecurityin.us-cert.gov.**

- **SwA "Build Security In" Web Site and SwA Community Resources and Information Clearinghouse (CRIC).** The Software Assurance Program prepares ad hoc analyses, briefings, reports, articles, briefings, web pages, white papers and supporting documentation. All of these resources are available for free on the "Build Security In" website, **www.buildsecurityin.us-cert.gov/bsi/home.html**, and SwA Community Resources and Information Clearinghouse (CRIC) website, **www.buildsecurityin.us-cert.gov/swa/**. Many advances are described in the SwA Landscape, the SwA Ecosystem, and the SwA Market Place. Software Security Assurance: A State-of-the-Art Report (SOAR) represents an output of collaborative efforts of organizations and individuals in the SwA Forum and working groups. Moreover, SwA drafts, reviews, and SwA Pocket Guides which are available for free via this site.

- **DHS USCIS Verification Division.** U.S. Citizenship and Immigration Services (USCIS) Verification Division conducts extensive outreach to small businesses through business associations and other entities to provide education about the use of E-Verify and the Form I-9. So far in FY 2011, the Verification Division's Outreach Branch has participated in 64 events held in 24 states and D.C. to deliver live presentations, sit on panels, and staff exhibits about E-Verify. Most of these events have included small businesses.

  - **Webinars.** In addition, the Verification Division also reaches small businesses through webinars. So far in FY 2011, 162 webinars have been delivered to more than 4,800 participants. Four of these webinars were conducted in partnership with small business associations for their members. Verification also partners with associations and other Federal agencies to reach out to small businesses through their channels—e.g., websites, newsletters, and mailing lists.

VI. Heightened Innovation and High Growth Support

The Startup America Initiative to Support America's Entrepreneurs. The White House and several Federal agencies are coordinating on a project to give America's entrepreneurs the tools they need to start more businesses. Startups and high-growth firms are a small part of the small-business community, but they create the lion's share of new jobs each year and drive innovation and competitiveness. Startup America will strengthen access for entrepreneurs and firms with high-growth potential through a range of Government and private sector support.

- **$1 Billion Impact Investment Fund**. SBA will provide guarantees of up to $1 billion over five years to those funds that invest growth capital in companies located in underserved communities.
  - **Making an Impact.** The $1 billion will include investing in economically distressed areas as well as those companies in emerging sectors such as clean energy. SBA will provide a match to private capital raised by these funds, partnering with private investors to target "impact" investments.
- **$1 Billion Early-Stage Innovation Fund**. Early-stage companies face difficult challenges accessing capital, particularly those without the necessary assets or cash flow for traditional bank funding. For high-growth companies, the gap is particularly acute in the so called "Valley of Death," an industry term for financing rounds between $1 million to $4 million.
  - **Leveling the Playing Field.** Over the past 4 years only 6 percent of all venture capital has been deployed in that stage, with 70 percent of the financings going to only three states, California, Massachusetts and New York. The Innovation Fund will target this gap and provide a 1:1 match to private capital raised by early stage seed funds.
  - **Built on Success.** Both of these funds will be built on SBA's successful, market-based Small Business Investment Corporation (SBIC) program, which operates on a zero-subsidy basis with no added cost for taxpayers.
- **SBA/DOE Entrepreneurial Mentorship Corps**. SBA, in partnership with the DOE and the Advanced Research Projects Agency-Energy (ARPA-E), is funding four private business accelerators to implement a nationwide entrepreneurial mentorship program to assist up to 100 small businesses developing clean energy technologies.
  - **Doing What Works.** These four programs to be funded will be selected based upon a track record of success in providing mentorship assistance. The funds will be used to support a total of 100 clean energy startups across the country.

- **Seasoned Entrepreneurs.** These accelerators will provide intensive mentorship from seasoned entrepreneurs to a selection of the most promising new companies previously funded by DOE and ARPA-E.

- **Building on Momentum.** This pilot program is the first step in the development of a large, distributed network of entrepreneurs, mentors, and startup accelerators.

- **Mentorship Incubators for Veterans**. The Department of Veterans Affairs (VA), in partnership with SBA and the Department of Labor, will establish two of the first integrated business accelerators focused solely on helping our Veterans launch and sustain their own businesses.

  - **Interactive Website.** The first accelerator program offers an interactive website that provides a comprehensive roadmap for starting a small business and provides assistance in utilizing the diverse set of resources available to support Veteran entrepreneurs.

  - **Experienced Entrepreneurs.** The second program includes a business incubator facility, located in Waukesha, Wisconsin, where early-stage Veteran-owned businesses are mentored by experienced entrepreneurs and trained to develop the skills needed to build a successful business.

- **Improved Ability to Commercialize Federally Funded R&D.** The Department of Commerce, through the Economic Development Administration (EDA), the National Institute for Standards and Technology (NIST), and U.S. Patent and Trademark Office (USPTO) is implementing several initiatives to improve the nation's ability to commercialize Federally funded research and development.

  - **University Commitments.** The National Advisory Council on Innovation and Entrepreneurship has provided policy recommendations and spurred greater efforts by university leaders to improve technology commercialization.

  - **Federal Lab Efforts.** EDA, in collaboration with the NIST and an interagency working group, has conducted a major study of Federal lab commercialization practices, which will be used to evaluate and disseminate best practices and improve results.

  - **i6 Competitive Grants.** EDA's Office of Innovation and Entrepreneurship, through widespread interagency partnerships, expanded its successful i6 competitive grants program with i6 Green. i6 competitions are designed to encourage and reward innovative ideas that accelerate technology commercialization, new venture formation, job creation, and economic growth across the United States.

- **Reducing Barriers Roundtables.** A series of eight "Empowering Entrepreneurs: Reducing Barriers" roundtables are being conducted – Durham, NC, Austin, TX, Boston, MA, Minneapolis, MN, Santa Clara, CA, Pittsburgh, PA, Atlanta, GA and Boulder, CO – to solicit direct feedback from high growth entrepreneurs to identify the most challenging regulatory hurdles they face.

    - **Better Communication.** A number of Administration officials will participate in these roundtables and meet with entrepreneurs to hear directly from them about what we need to fix to build a more supportive environment for entrepreneurship. Entrepreneurs who are unable to participate in one of the roundtables will have access to an online platform to submit ideas. That can be found at: **http://reducingbarriers.ideascale.com/**.

    - **Removing the Barriers.** Using the input from these events, the online submissions, and Government employees, the Administration will put together a list of the best ideas to streamline and simplify unnecessary barriers to America's entrepreneurs and innovators.

The Startup America Partnership. In response to the President's call to action to promote high-growth entrepreneurship across the country, leaders in the private sector are making commitments to educate the next generation of entrepreneurs, connect more entrepreneurs with high-quality mentors, foster more collaborations between startups and large companies, and accelerate research breakthroughs from the lab to the marketplace. The Startup America Partnership is an independent alliance of top entrepreneurs, investors, corporations, universities, foundations, and other leaders, joining together to grow the entrepreneurial ecosystems that support innovative, high-growth U.S. startups. Long-term commitments will include:

- **$400 million in Private-Sector Commitments.** President Obama announced this new wave of commitments secured from more than 15 companies and organizations at Facebook headquarters. These commitments will deliver strategic and substantive resources that accelerate entrepreneurs starting and scaling companies. These new private-sector partnerships deliver more than $400 million in value to U.S. entrepreneurs, building upon over 20 commitments already secured by the Startup America Partnership from companies like Intel and IBM.

- **Education.** The Startup America partnership will offer high-impact entrepreneurship education programs to more high schools, community colleges, and universities, reaching thousands of additional students.

- **Commercialization.** The partnership will work to clear the path to market for primary research in more universities, through a combination of regional ecosystem development, faculty engagement, and streamlined technology licensing.

- **Acceleration.** The Partnership aims to get results—fast—by replicating successful entrepreneurship accelerator programs in more cities and universities, by recruiting more experienced mentors to support more startups.

Tools for Small Businesses with High-Growth Potential. In 2010, agencies across the Federal Government worked together to identify tools for high-growth and high-impact firms and made recommendations for increasing the focus of innovation and research efforts to support commercialization of new technology. This increase in commercialization will give rise to new industries and the subsequent need for a skilled workforce, thus creating jobs.

- **Record Year for SBIC Program.** At a time when capital was scarce for small business, financing from the SBIC growth capital program increased 23 percent in FY 2010, providing a record $1.59 billion to help small businesses grow and create jobs. The FY 2010 investment volume is the highest single-year volume in the 50-year history of the SBIC debenture program, achieved through an increased number of new SBIC licenses, decreased license processing times, and a dramatic rise in initial capital to new funds. Twenty-one (21) new SBIC licensees were issued in FY 2010, a 130 percent increase over the previous four-year average of 10 licensees per year. SBIC license processing time improved to just 5.8 months in FY 2010, a nearly 60 percent decrease from an average of 14.6 months in 2009.

Constant Contact (Waltham, MA)

For small business owners that may lack the time or expertise to manage their own marketing campaign, Constant Contact offers e-mail marketing solutions that offer an easy-to-use and affordable way to keep in touch with clientele. Launched in 1998, Constant Contact has helped all types of small businesses create professional-looking email newsletters and online surveys.

In 2002, SBIC Hudson Venture Partners saw the potential of Constant Contact's model when it invested $2.3 million in the company and joined its board. With Hudson's assistance, the company grew from just 27 employees to over 300 and eventually went public at a value of $300 million.

- **Small Business Innovation Research (SBIR) 2.0.** The SBIR program is a set aside from the extramural research budgets of eleven participating agencies with over $100 million in annual extramural research budgets. The program has provided early funding technology companies such as Qualcomm, Semantech, and Genentech. SBIR represents the single largest early stage investment tool in the Government, providing approximately $2.5 billion annually to small businesses. The SBA is currently

First RF Corporation & DOD SBIR

First RF Corporation (Boulder, CO) developed a small multi-decade communications & electronic warfare antenna for high speed, high power electronics. This antenna allows for a single installation on vehicles to cover multiple bands and functions. The First RF antenna can be used in military applications for communication, sensors and countermeasures systems. On the commercial side, the antenna has applications in radio communications and sensors. This technology spearheaded the growth of First RF high volume production which now has over three dozen commercial products available and over 150,000 antennas sold to date. The commercialization for this technology has been over $200 million in sales.

implementing SBIR 2.0 to reinvigorate the program in a way that makes the SBIR program more entrepreneur-friendly by:

- **Leveraging Best Practices.** SBIR 2.0 coordinates and raises awareness of best practices among agencies to improve the commercialization rates of SBIR awardees.

- **Strengthening Metrics.** SBIR 2.0 will strengthen performance measurement to ensure effective operation of the program.

- **Streamlining.** The new SBIR will be more user friendly for entrepreneurs through new initiatives to streamline and simplify the program.

SenTech Inc. & DOD SBIR

SenTech Inc., under the leadership of CEO Dr. Gervasio Prado and supported by the DARPA SBIR Program, developed a small, low cost, five-inch-diameter acoustic-seismic sensor array for detecting, identifying and tracking ground vehicles. It can be placed easily by hand or air-dropped by helicopter. The challenge was to develop advanced seismic processing techniques that would eliminate noise, use seismic signatures to identify passing vehicles, and also determine vehicle bearing, velocity and range. This work was successful, and these acoustic-seismic capabilities were extended and incorporated into various military platforms and applications. This project built upon an earlier success, funded by Sandia National Laboratories, which demonstrated that unattended acoustic-seismic ground sensors were effective for covert surveillance of military vehicles. The solutions to this challenge included electronics that significantly reduced power consumption, improved algorithms for detecting, identifying, and tracking multiple vehicles in convoys, and methods for summarizing information for satellite transmission. The DARPA funding extended these achievements.

- **More Public-Private Partnerships.** SBIR 2.0 will increase alignment with the private sector and fostering cross-agency partnerships.

- **Increased Funding for SBIR and Small Business Technology Transfer Programs (STTR).**

  - **Department of Energy SBIR.** With the help of ARRA funds, DOE increased its funding of SBIR and STTR Phase I and Phase II awards by $91 million to $235 million in FY 2010. These funds permitted a supplemental solicitation that emphasized highly commercializable technologies. Examples of clean energy technologies funded include an innovative wave energy converter (Resolute Marine Energy) and a bio-based intelligent roof coating technology to reduce heating and cooling loads of buildings (United Environment and Energy).

National Institutes of Health SBIR

NIH committed approximately $690 million in appropriated funds each year in FY 2009 to FY 2010 to its SBIR and STTR programs. NIH developed two ARRA programs specifically for small businesses, one to help early stage companies catalyze research in new areas and the other to help more advanced companies bridge the commercialization gap.

Additionally, small businesses competed well and received awards from other NIH ARRA programs that did not target small businesses. Overall, NIH awarded an additional $317 million in ARRA funds to small businesses through all these programs over FY 2009 to FY 2010.

- **Advanced Research Projects Agency-Energy (ARPA-E).** A new DOE agency set up to promote and fund high-risk, applied, advanced energy technologies with breakthrough potential. Start-up companies and small business are often best structured to pursue such projects—large companies may find the high-risk projects unattractive, while universities may be more focused on basic research. In terms of funding to date, $132 million, roughly 37 percent of ARPA-E funds, has been allocated to small businesses. ARPA-E remains engaged to help small businesses succeed after the award is made by offering resources designed to help companies overcome both technical and commercial challenges.

ARPA-E in Action

In a little over one year, six projects that received a total of $23.6 million in seed funding from the Department of Energy's Advanced Research Project Agency – Energy (ARPA-E) have generated more than $100 million in outside private capital investment. The six projects, which received between $750,000 and $9 million each in ARPA-E funding, focus on improving solar and wind energy technologies and advanced battery storage:

1366 Technologies, Lexington, MA. 1366 Technologies is a small startup developing a new way to make silicon wafers – a key component of solar panels – for 80 percent less than the current cost. The company received $4 million investment from ARPA-E and since then has secured an additional $33.4 million from investors and interested customers.

Envia, Hayward, CA. Envia Systems, in partnership with Argonne National Laboratory, received $4 million from ARPA-E in December 2009 to develop lithium-ion batteries with the highest energy density in the world. They recently received an additional $17 million in private investment led by General Motors.

FloDesign, Wilbraham, MA. FloDesign Wind Turbine received $8.3 million from ARPA-E to accelerate the development of a new wind turbine inspired by airplane jet engines. ARPA-E funding helped FloDesign develop their new technology, recruit a stellar executive team, more than double its staff from 20 to 50 employees, and ultimately raise an additional $27 million from private investors.

SunCatalytix, Cambridge, MA. Sun Catalytix, a start-up spun out of MIT, received $4 million from ARPA-E to develop their technology for using sunlight to split water to provide affordable, highly distributed energy. They have since received an additional $9.5 million in venture capital funds.

General Compression, Newton, MA. General Compression is developing fuel-free compressed air energy storage technology to enable low-cost grid storage and to help make intermittent renewable power (such as from solar and wind) fully dispatchable. The company received a small ARPA-E grant of $750,000 to test an improved version of their technology with significantly higher efficiency and lower cost, which has been built and is now in testing. That allowed General Compression to secure over $12 million in additional funding from existing and new investors.

24M, Cambridge, MA. Soon after receiving an ARPA-E award of $2.55 million, scientists at MIT and A123 Systems spun out the technology to form a start-up, 24M, which received $10 million in venture capital funds. The company is developing a new battery architecture that could take batteries for electric vehicles well beyond the performance and below the cost of lithium ion cells.

- **Government Reform for Competiveness and Innovation.** This is a government-wide review of rules and regulations announced by the President earlier this year in a Presidential Memorandum. The idea is that the United States cannot win the future with a government living in the past. Americans already do business in the information age, but the organization of the Federal Government has not kept pace. That is why the President has assigned the Nation's first Chief Performance Officer who is responsible for the effort to create a plan for the restructuring and streamlining of the executive branch of the Federal government. The first focus of this effort will be on the executive departments and agencies and the functions that support one of our most important priorities increasing trade, exports, and our overall competitiveness. This reform aims to make the Federal government more efficient, which in turn, will streamline the ways small businesses interact with government.

- **DC-to-VC Summits on Investing in Healthcare Technology.** DC-to-VC events are targeted engagements between Federal leadership and venture capitalists, innovators, and entrepreneurs, focusing on how to address emerging opportunities while simultaneously improving our country's health through better, more efficient care delivery. Led by the Chief Technology Officer of the Department of Health and Human Services, in cooperation with the White House, the Office of the National Coordinator for Health Information Technology, and the Centers for Medicare and Medicaid Services (CMS) Innovation Center, an expanded series of workgroups and discussion roundtables have been launched during 2011 that build upon significant previous successes.

- **USDA's Rural Business Services' Biorefinery Assistance Program (Section 9003).** Section 9003 is administered through USDA Rural Development and directly supports the commercialization of new technology. The program provides loan guarantees of up to $250 million to projects that develop new and emerging technologies for advanced biofuels. In general, these projects include technology that is being adopted in a viable, commercial-scale operation of an advanced biorefinery. Projects also include technology that has been demonstrated to have technical and economic potential for commercial application in an advanced biorefinery.

- **DHS and the US Army Medical Research and Material Command (USAMRMC).** These agencies are working to facilitate transfer of technology with the Maryland Technology Development Corporation (MD-TEDCO). MD-TEDCO will assist companies with technology development projects that meet the needs of DHS and/or USAMRMC. Typical awards of $75,000 in support of technology development will be provided to eligible companies.

- **GSA Green Proving Ground Program.** The goal of GSA's Green Proving Ground Program is to help innovative American businesses compete and excel. GSA is harnessing the potential of innovative buildings technologies and practices that accelerate environmental efficiency. By evaluating and adopting new ideas and technologies, GSA will drive innovation in environmental performance across Federal Government buildings and help build the clean energy economy of the future. In one example, GSA pilot tested the effectiveness of digitally controlled, workstation-specific lighting technology ("Smart Lighting") from Newark, California-based start-up Lumenergi, in a 30,000 square foot space in GSA's San Francisco Phillip Burton Building. The Smart Lighting technology delivered a 40 percent lighting energy savings and the market potential demonstrated by the pilot engaged venture investment company GoodEnergies to support Lumenergi. In order to continue identifying innovative technologies to test and adopt, GSA has issued an official Request for Information and is creating a registry of technologies and practices that optimize energy performance, protect and conserve water, enhance indoor environmental quality, reduce waste and environmental impact of materials, reduce greenhouse gas emissions associated with building operations, and promote integrated design.

- **National Science Foundation (NSF).** Created by Congress in 1950, the NSF was designed to promote the progress of science; to advance the national health, prosperity and welfare; and to secure National defense. For over fifty years the NSF has done just that, funding approximately 20 percent of all Federally supported basic research conducted by America's colleges and universities. Today, the NSF continues to fund innovative research that will lead to the development of breakthrough technologies, which create jobs and give America a more competitive economy.

  - **Engineering Research Centers (ERCs).** A primary driver for the establishment of the ERC program by the National Science Foundation in 1984 was to facilitate the transfer of knowledge and technology developed out of the ERCs' research on next-generation engineered systems to U.S. industry. This focus on innovation was and still is at the heart of the ERC–industry partnership. That partnership has yielded rich dividends. From 1985 through 2010, ERCs have produced 1,796 invention disclosures, had 642 patents awarded, granted 2,105 patent and software licenses, and spun off 151 firms with (as of late 2010) a cumulative total of 1,464 employees. Over the past 25 years, 48 ERCs have received roughly $1 billion in funding from the ERC program. Successful ERCs are supported by NSF for 10 years; when they "graduate" from NSF support they are expected to attain self-sufficiency with funds from industry, academia, and other sources. Beginning with the newest generation of ERCs in particular (Gen-3), in 2008, there is a very specific focus on building and sustaining a culture that links discovery to innovation. This innovation culture, called the "ERC innovation ecosystem," includes partnerships with ERC member firms to strengthen the ERC and streamline technology transfer. Small firms that join ERCs through cash and in-kind contributions benefit from membership in ERCs through access to new ideas, access to students, and access to the ERC's equipment for special projects. A particular emphasis is on forming translational research partnerships with small firms and SBIR Phase II awardees to accelerate the commercialization of high-risk ERC advancements; this activity is enabled by collaboration between the ERC program and NSF's Industrial Innovation and Partnerships Division. Finally, "innovation partnerships" are formed by ERCs with state and local-level organizations to stimulate entrepreneurship and job

> Virent's Green Gasoline has received more than $60 million in investor financing. Virent received SBIR funding from NSF to develop green gasoline (not ethanol) from plant sugars. Scaling up, they have since received tens of millions from major partners including Shell, Honda and Cargill.
> See the press release at: **www.gigaom.com/cleantech/shell-cargill-fuel-up-virent-with-46m/** announcing $46 million in support of this Wisconsin-based startup.
>
> More on the technology is available at: **www.nsf.gov/news/news_summ.jsp?cntn_id=112256**

creation and enable technological innovation. This emphasis on partnerships between ERCs and small businesses has been extremely effective. Between 2006 and 2010, the percentage of ERC member companies that are small companies nearly doubled, from 23% to 44%.

- ERC research is divided into four broad technology areas, or clusters.
  - **Biotechnology and Healthcare.**
  - **Manufacturing and Processing.**
  - **Energy, Sustainability, and Infrastructure.**
  - **Micro/Optoelectronics, Sensing, and Information Technology.**

- **Accelerating Innovation Research (AIR).** To accelerate the process of innovation, NSF is undertaking two related, new activities. The first will encourage the translation of the numerous, technologically-promising, fundamental discoveries made by NSF researchers, while drawing upon and building the entrepreneurial spirit of the researchers and students. The second activity will foster connections between an existing NSF innovation research alliance (including consortia such as Engineering Research Centers (ERC), Industry University Cooperative Research Centers (I/UCRC), Partnerships for Innovation (PFI), Science and Technology Centers (STC), Nanoscale Science and Engineering Centers (NSEC), Materials Research Science and Engineering Centers (MRSEC) grantees) and other institutions, whose complementary focus will spur the development of discoveries into innovative technologies through collaboration. Both components of AIR aim to launch discoveries from basic research towards commercialization by preparing them to be developed by a small business. The two components of AIR operate at different scales: the Technology Translation Plan Competition involves single researchers or small teams (who later could start their own company), while the Research Alliance Competition involves NSF centers and multiple business partners.

> A joint team of physicists and ophthalmologists from the NSF-supported Center for Ultrafast Optical Science at the University of Michigan and the university's Kellogg Eye Center developed a procedure that significantly improved LASIK surgery procedures. The improvement involves using an ultrafast laser to make clean, high-precision surgical cuts in the human cornea. Using the ultrafast laser instead of a mechanical blade enables surgeons to create a precise corneal flap. The femtosecond laser "scalpel" provides surgeons much higher precision and accuracy. The Michigan center was an NSF Science and Technology Center (STC) from 1990-2001; today, it's an interdisciplinary research center in the university's College of Engineering. The researchers' work has already benefited hundreds of thousands of people who have undergone vision correction procedures since 2001. Two members of the Michigan research team founded the IntraLase Corporation to commercialize the femtosecond laser technology. Advanced Medical Optics, Inc. agreed to acquire IntraLase for about $808 million in 2007.

- **Technology Translation Plan Competition.** Technology Translation Plan Competition is an opportunity for Principal Investigators from academic institutions to support innovative ideas by translating fundamental science and engineering discoveries into commercial reality. The effort is meant to benefit the single faculty members, however, a small business may collaborate with the academic institution to augment the research capabilities of that institution.

- **Research Alliance Competition.** As far as the benefits to small businesses are concerned, the grant from this competition may be used to fund translational research necessary to bring a particular technology from the small business (or businesses) to market, or to fund infrastructure, such as a rapid prototype facility, that would enable technologies to be more rapidly commercialized. With such projects, the research alliance cannot partner with just one small business; it has to be more than one.

The USDA Agricultural Research Service (ARS). ARS is USDA's principal intramural scientific research agency. ARS obtains patents and licenses technology resulting from intramural research conducted by USDA. By policy of ARS, IP related to research tools is not protected so as to encourage scientific research. Further, patent protection is sought primarily to facilitate technology transfer (adoption of research outcomes) by U.S. businesses that must compete in global markets; typically, some degree of exclusivity is needed to protect further R&D investments by the private sector. Otherwise, alternative means of technology transfer are employed to reduce transaction costs that must be absorbed by the private sector and passed to the consumer. Annual Reports on USDA Technology Transfer typically illustrate that nearly half of the "downstream outcomes" related to adoption of research do not involve patents or licenses; read more at: **http://www.ars.usda.gov/Business/Business.htm.**

- **ARS Office of Technology Transfer (ARS-OTT).** ARS-OTT is assigned the responsibility for protecting intellectual property, developing strategic partnerships with outside organizations, and performing other activities that effectively transfer ARS research outcomes and technologies to the marketplace. ARS-OTT is centralized in policy and approval procedures, but maintains eight field offices to provide one-on-one customer service to ARS researchers. Consisting of about 45 personnel dedicated to facilitating technology transfer, OTT is organized into five sections:

  - **Administrative and Headquarters.** This branch oversees day-to-day operations, coordinates technology transfer policy development, and executes licenses and Cooperative Research and Development Agreements (CRADAs).

  - **Patents.** The Patent section consists of eight in-house registered patent agents. These agents provide strategic guidance to scientists in protecting IP, coordinate invention reports and Invention Disclosure Review Committees, prepare and prosecute patent applications, and oversee any patent applications prepared by contract law firms for foreign patent rights.

- **Licensing.** The Licensing section is made up of four specialists. Specialists negotiate licenses for IP developed by USDA scientists and monitor license performance.

- **Marketing.** The Marketing section develops, implements, and coordinates marketing strategies to facilitate available information to support technology transfer.

- **Technology Transfer Coordinators (TTCs).** ARS has seven TTCs strategically stationed across the United States who are responsible for facilitating the development and transfer of USDA technologies. They serve as liaisons with scientists, ARS managers, university partners, and the private sector. They also negotiate CRADAs and other technology transfer agreements.

- **ARS Success Demonstrated by the Nature of Technology Transfer Outcomes and Metrics with Small Businesses.** The ARS budget represents 1 percent of Federal R&D expenditures, yet routinely, ARS scientists receive at least 15-25 percent of the National Excellence in Technology Transfer Awards presented by the Federal Laboratory Consortium for Technology Transfer, attesting to the strong long-standing USDA culture of ensuring that research outcomes are delivered to end users in the agriculture sector. Metrics from FY 2010 show a strong focus on small businesses:

  - **115 of 197 (58%) active commercialization licenses** are with small businesses;

  - **125 other licenses** are with universities and institutions of co-inventors of USDA innovations, consolidating rights for subsequent licensing for commercialization; many—if not a majority (exact figures not available)—of the resulting sublicense agreements are also with small businesses enterprises;

  - **246 of 323 (76%) active licenses** are exclusive or partially exclusive;

  - **125 of 323 active licenses** have at least 1 product in the marketplace.

  - **In addition to licenses, 260 CRADAs** represent formal research partnerships, predominantly with U.S. small business (approx. 65%), to find solutions to high national priorities for agricultural industries and to facilitate adoption of innovation-based research outcomes for private sector commercialization. CRADAs convey the right to negotiate exclusive licenses by the partners without Federal Register notice.

- **Agricultural Technology Innovation Partnership (ATIP) Program.** ARS established the ATIP program in late 2007 to further enhance opportunities and likelihood that research outcomes arising from the 2,100 scientists at 100 U.S. locations will be adopted by the private sector for commercialization by businesses that may exist anywhere in the nation. The program was born from the recognition that Federal intramural R&D agencies were limited by mission and resources in the services they can provide to U.S. businesses. Consequently, ATIP was established to strategically form geographic partnerships with a select few, well-established economic development entities that excel in providing the complementary assets that ARS cannot.

  - **The ATIP Program is comprised of Ten Economic Development Members.** Eight of these entities each serve as a portal anchored to an ARS Area, and a 9th Partner representing a national organization, the National Association of Seed and Venture Funds. ATIP "Associates" work in conjunction with a proximal Partner. Currently, there is one ATIP Associate. Partners and Associates become members of ATIP through a Partnership Intermediary Agreement (PIA) executed with the Office of Technology Transfer; seven of these entities became ATIP members in 2009-2010.

  - **Members of ATIP.** Members include the Maryland Technology Development Corporation (TEDCO), Mississippi Technology Alliance (MTA), Wisconsin Security Research Consortium (WSRC), National Association of Seed and Venture Funds (NASVF), Georgia Research Alliance (GRA), Ben Franklin Technology Development Authority (BFTDA), Kansas Bioscience Authority (KBA), TechComm at the Center for Innovation, Arlington, TX, California Association for Local Economic Development (CALED), and the Center for Innovative Food Technologies, Toledo, OH (CIFT; an ATIP Associate with WSRC).

> CrispTek is an example of the commercial viability of ARS-conceived food innovations. CrispTek's ChoiceBatter line builds from ARS innovations to offer rice batter that absorbs less oil when fried and still maintains a crispy texture. The company was formed in 2007, entered into a licensing agreement with the ARS Tech Transfer Office in 2008, and entered into a CRADA with ARS in 2009. It signed an agreement in 2008 with a facility in Iowa to manufacture its products, and sold its first product in 2009. By August 2010, ChoiceBatter was being sold in over 400 stores across the US, including four major grocery store chains, and Year 5 sales are anticipated to be $4.7 million.
>
> Econsult estimates that the ARS-Crisptek partnership would potentially yield, on an annual basis, a significant total impact in the counties in which economic activity is taking place. Within the five counties where there is significant CrispTek economic activity, total annual potential economic impact reaches about $8 million in output (i.e. expenditures), including about $4 million in value-added (i.e. contribution to Gross Domestic Product), supporting about 100 jobsand about $4 million in earnings (i.e. compensation). In CrispTek's home county, Howard County in the State of Maryland, total annual potential economic impact reaches about $3 million in output, including about $2 million in value-added, supporting about 15 jobs and about $1 million in earnings. Importantly, these annual potential economic impacts occur within a wide range of industries and are not narrowly distributed to just one or two sectors.

- **Promotion of entrepreneurship and small business development.** ATIP activities are directed toward innovation-based economic development with small businesses. In 2007, ARS provided a few issued patents to an entrepreneurship class at Howard Community College (MD); two of these resulted in exclusive licensing in 2009, following requisite Federal Register Notice. Currently, most ATIP members have formal links with entrepreneurship schools administered by universities and community colleges. In 2010, USDA began routinely providing issued patents and patent applications to these schools through ATIP members.

Investments in Broadband Technology for Small Businesses. Broadband technology is a necessary piece of American infrastructure. However, many areas of the Nation are not able to access this critical technology. These investments will help to remedy that problem and allow rural and small businesses better access to broadband in order to make their enterprises more efficient.

- **National Telecommunications and Information Administration's (NTIA) Broadband Technology Opportunities Program (BTOP).** NTIA invested approximately $4 billion in 232 BTOP projects benefitting every state, territory, and the District of Columbia. This BTOP portfolio of projects include:

  - **123 Infrastructure Projects.** 123 infrastructure projects totaling $3.5 billion in Federal grant funds to construct broadband networks;

  - **65 Public Computer Center Projects.** 65 public computer center (PCC) projects totaling $201 million in Federal grant funds to provide access to broadband, computer equipment, computer training, job training, and educational resources to the public and specific vulnerable populations; and

  - **44 Sustainable Broadband Adoption Projects.** 44 sustainable broadband adoption (SBA) projects totaling $250.7 million in Federal grant funds to support innovative projects that promote broadband adoption, especially among vulnerable population groups where broadband technology traditionally has been underutilized.

> Trillion Communications, Inc. and its several small disadvantaged business partners received a $59 million BTOP grant to construct over 2,200 miles of new fiber to complement an existing fiber network in an 8-county region in central Alabama. Since Trillion's founding in 2001, this African-American owned company has grown too large to be considered a small business, but is committed to ensuring opportunities for small minority businesses. Trillion expects to contract with at least 30 small minority firms in the first round of project procurements and many more as the project progresses. In addition, the project's resulting infrastructure will provide new or improved broadband service to nearly 3,000 businesses, 72,000 households, and 400 anchor institutions, including government facilities, schools and libraries, public safety entities, two Historically Black Colleges and Universities, and health care facilities.

- **Small Businesses Benefit.** Among BTOP's many beneficiaries, small businesses will benefit not only through improved broadband services from BTOP-funded projects but also as BTOP awardees. Twenty-seven BTOP grant recipients are small businesses, of which three are socially and economically disadvantaged small business concerns (SDBs).

- **USDA's Rural Utility Services (RUS).** RUS funds projects to increase access to broadband service in rural areas. These investments promote economic development, increase access to healthcare and educational opportunities, help create jobs, and increase rural viability. Telecommunication investments during FY 2010 include:

  - **$2.5 Billion Invested in Broadband Infrastructure.** By using $2.5 billion in Recovery Act funding authorized by Congress, USDA leveraged to provide loans and grants of approximately $3.6 billion to construct 320 broadband infrastructure and satellite projects in 46 states and one territory.

  - **$690 Million Invested in Communications Technology.** $690 million in infrastructure loans to deliver improved communications technology, including broadband service, to meet the needs of homes and business in rural America

Rural Businesses and Broadband Technology

The Great Lakes Bay Region and Thumb Area in Michigan were in need of broadband infrastructure to allow the community to compete in the global marketplace. In addition to lack of broadband services necessary for local businesses to operate, schools needed an internet connection for their students in the classroom and at their homes. Seeing these critical needs missing in the community, Zimco, a family-owned corporation, founded Air Advantage in June, 2002 to offer a broadband solution.

Initially, USDA Rural Development made two Community Connect Grants to Air Advantage: $219,176 for Port Hope, Michigan and $214,532 for Unionville, Michigan. The grants provided funding for a wireless infrastructure and community center with 10 computers in both communities where residents could access the Internet using high-speed broadband service.

As the business grew, Air Advantage applied to USDA Rural Development's Broadband Loan Program. In 2004, they received a low interest loan of $1,500,000 to reach several Michigan communities followed by another loan in late 2005 for $1,028,000 for additional Broadband expansion in the rural community of Frankenmuth, Michigan.

In 2009, USDA provided an additional loan for $908,000, so Air Advantage could upgrade and expand its services.

In 2010, Air Advantage was selected for a Rural Development Broadband Initiatives Program (BIP) award under the American Recovery and Reinvestment Act; a $32.3 million loan and a $31.9 million grant. These funds will be used to extend broadband services to last-mile consumers in 13 counties that make up an area known as the Great Lakes Bay Region and Thumb Area.

On November 30, 2010, Air Advantage reported delivering broadband services to 4,943 customers in its 3,500 square mile service area using 350 miles of wireless network backbone. The 65 towers transmit information that reaches out to households, six hospitals, and 18 school districts where students have at least 17 distance learning courses at any given time. In addition, Air Advantage also provides service to 21 hospitals and medical facilities, 7 police service, 4 fire facilities, 4 ambulance services and 59 government office locations throughout 75 municipalities.

Students can do research and take distance learning courses without having to travel great distances. And, fifty or more students are now taking advantage of dual enrollment classes to take college and high school level courses at the same time. The program is possible because of broadband.

Businesses are also realizing the benefits that broadband offers. At least 20 Air Advantage customers living in remote Northern Michigan have eliminated long commuting times and enjoy the benefits of working from home 3-5 days a week.

Broadband throughout the region will improve because of the BIP loan and grant. The BIP award will fund additional broadband infrastructure which will pass 279,200 households, approximately 21,000 businesses, and 4,000 community institutions that include hospitals, libraries, universities, schools and government entities.

The project will create or save an estimated 142 jobs and may add many more as users are connected to the system and local businesses expand. Air Advantage is a proud recipient of the US Chamber of Commerce Blue Ribbon Small Business Award. This award is given to companies that have shown excellence in business history and commitment to customers, employees, and the community.

- **Broadband Initiative.** In collaboration with the Federal Communications Commission, SBA engaged SCORE (Counselors to America's Small Business), Women's Business Centers and

Small Business Development Centers to develop training content for materials to assist and advise small business entrepreneurs on improving business access and productivity through technology. These professional counselors within the SBA partner network also educate companies on the small business opportunities arising from developing and expanding broadband technologies. Small business opportunities exist in discovering and delivering the next generation of products and services.

- **The SCORE Broadband Consortium.** This group provides Internet and e-commerce mentoring, training and services to ensure success for entrepreneurs and small business owners. Consortium founders included AT&T, Best Buy, Cisco, Constant Contact, Google, HP, Intuit, Microsoft, Skype and Time Warner Cable Business Class. SCORE is distributing the broadband training curriculum to their partners in all of the 110 Women's Business Centers.

The Manufacturing Extension Partnership (MEP). Accelerating opportunities to leverage and adopt technology is the key to long-term business growth and productivity for U.S. manufacturers. MEP serves as the connection between manufacturers and technology opportunities and solutions for growth in the global marketplace.

- **Leveraging Technology to Stimulate Business Growth.** In partnership with other agencies, organizations, universities and Federal labs, MEP provides a wide range of product development and commercialization assistance services to help manufacturers rapidly move new product opportunities and innovations into production and out into the market.

- **National Innovation Marketplace Builds Technology-Based Supplier Networks.** MEP also is connecting manufacturers to technology and business opportunities resulting in new markets and new innovative products necessary for high growth. In partnership with other organizations, the MEP program continues to pilot test the National Innovation Marketplace (NIM), which facilitates connections between technology requestors (OEMs), and potential suppliers, encouraging technology translation and adoption. Additionally, a group of partners is facilitating the building of high-growth technology-based supplier networks.

Entrepreneurship Programs for Veterans. The SBA has partnered with Syracuse University on three new training programs for America's veterans and their families.

- **The Entrepreneurship Boot Camp for Veterans (EBV) with Disabilities.** EBV is designed to open the door to business ownership for our veterans. The program delivers entrepreneurship training through a one-year "boot camp" for service-disabled veterans of the wars in Iraq and Afghanistan who want to start or grow small businesses. This year, the EBV program is expanding to a total of seven business schools at universities around the country.

- **Women Veterans Igniting the Spirit of Entrepreneurship (V-WISE).** V-WISE will be open to women veterans beginning in May 2011. The program consists of a three day off-site training program, online training, and network support structures. Classes will be held in six cities, starting with San Antonio and Baltimore in 2011.

- **Operation Endure and Grow.** Operation Endure and Grow provides online and in-person business counseling, training, and mentoring to small business owners and entrepreneurs serving in the National Guard and Reserve. This program also extends to members of their immediate families.

Science and Technology Directorate (S&T). The DHS Science and Technology (S&T) Research & Development (R&D) Partnerships Group conducts extensive outreach efforts with members of the Homeland Security Enterprise (HSE) based on the strategic and programmatic needs of the Department and S&T.

- **S&T's Small Business Innovation Research (SBIR) Program Office within the Office of Public-Private Partnerships.** DHS is one of 11 Federal agencies that participate in the SBIR Program. Since 2004, the DHS SBIR Program Office has administered the Federally mandated SBIR Program to strengthen the role of innovative small business concerns (SBCs) in Federally funded research or research and development. Specific program purposes are to:

    - **Stimulate** technological innovation

    - **Use small businesses** to meet Federal R&D needs

    - **Foster and encourage participation** by socially and economically disadvantaged SBCs, and by SBCs that are 51 percent owned and controlled by women, in technological innovation

    - **Increase private sector commercialization** of innovations derived from Federal R&D, thereby increasing competition, productivity and economic growth

- **S&T SBIR Solicitations.** Two solicitations are released each year for which small businesses can submit proposals and compete for approximately $15 million per year. More information can be found at: **https://sbir2.st.dhs.gov**.

- **SBIR Outreach.** The SBIR Program Office participates in two national SBIR conferences each year, approximately six regional and local conferences and workshops, and monthly vendor outreach sessions to provide the small business community an opportunity to discuss their capabilities and learn of potential procurement opportunities.

- **S&T's Office of Public-Private Partnerships**. The Commercialization Office within the Office of Public-Private Partnerships actively reaches out to small businesses through conferences, workshops, panel participation, publications and pamphlets, and the "Full Response Package." The Full Response Package contains a company overview template, which is a vehicle in which companies can describe their products, technologies, and services and how they align to the known capability gaps of DHS and its stakeholders. Companies may request a Full Response Package at **SandT_RDPartnerships@dhs.gov**. These overviews are put into a repository available to Program Managers within S&T to identify relevant technologies that may be applicable to current or future projects.

  - **Company Overviews.** Currently 54 percent of the company overviews received and 70 percent of the business contacts maintained are from small businesses. The Commercialization Office also provides detailed information for small businesses on various opportunities for engagement within S&T, establishing open communications between the public and private sectors.

  - **Public-Private Partnerships.** DHS S&T offers public-private partnership programs that provide opportunities to evaluate and certify products and services related to stakeholder needs. These clearinghouse programs create market differentiators for small business innovators and create other opportunities for strategic partnerships between private sector entities. This fosters entrepreneurship amongst small businesses and provides vehicles for independent review of products and services designed to meet stated requirements and identified potential available markets in the homeland security enterprise. More information can be found online at: **www.dhs.gov/xabout/structure/gc_1234194479267.shtm**.

- **Office of National Labs, Technology Transfer Office**
  - S&T and the Center for Innovation (CFI), Arlington, TX, recently entered into a MOU to work towards furthering research, product development, commercialization, and facilitating economic opportunities.

- **One Stop Career Centers' Small Business Services.** One-stops are administered at the local level within parameters set by ETA and statute. Previous DOL reports on incorporating entrepreneurship services into those provided at One-Stops have discussed changing the culture of the workforce investment system and encouraging Local Workforce Investment Boards (LWIBs) to build partnerships and provide resources necessary to help job-seekers become entrepreneurs. In November 2010, ETA issued TEGL 12-10 to encourage support for entrepreneurship by states and LWIBs, to provide information about the public workforce system's role in promoting entrepreneurship, and to describe innovative entrepreneurship programs in states and at DOL. The TEGL encourages them "to establish parameters for funding entrepreneurial and self-employment training". Evidence has suggested that some DOL programs, including those that promote entrepreneurship, are more effective when

One-Stops are co-located with service centers for agencies like HHS or SBA. Small business assistance centers can more effectively service the unemployed and minority communities by co-locating with DOL one-stops. To find a One-Stop Career Center, visit **http://www.servicelocator.org**.

VII. Strengthened Small Business Protection

The Dodd-Frank Wall Street Report and Consumer Protection Act (Dodd-Frank). Dodd-Frank signed in July 2010, provided several key reforms to aid the financial system and help support U.S. small businesses.

- **Providing the Stability and Fairness Small Business Owners Need.** This legislation provides the stability and fairness small business owners need in U.S. financial markets, ensuring them access to credit and opportunities to grow their business and create jobs. It provides clear rules of the road for financial products and services and consolidates the now fragmented Federal regulatory authorities related to consumer financial protection into one agency to ensure fair, transparent and consistent enforcement of consumer financial laws and regulations. Lastly, it closes the loopholes that were exploited by competitors of community banks. Community banks are some of the strongest partners of small businesses and provide key points of access for capital needed to grow small business and create jobs.
  - **Creation of the Consumer Financial Protection Bureau (CFPB).** The Act creates the CFPB, which is dedicated to protecting consumer rights. An independent Bureau of Consumer Financial Protection will set and enforce clear, consistent rules for the financial marketplace. A single consumer bureau will set clear rules of the road and ensure that financial firms are held to high standards. (Small businesses outside the financial sector will not be regulated by the new consumer protection agency).
  - **Debit Card Reform.** New rules capping debit card "swipe" fees at the actual cost of processing the transaction will save small businesses millions of dollars annually.

Credit Card Accountability, Responsibility, and Disclosure (CARD) Act. The President signed the CARD Act in May 2009 to protect Americans, including U.S. small businesses, from unfair and deceptive credit card practices.

The Affordable Care Act. The Affordable Care Act, signed in March 2010, provides more affordable and more accessible health care coverage for families and small businesses.

- **Helping Provide Access and Reduce Costs for Small Business Healthcare.** The Affordable Care Act addressed one of the top concerns of small business: access to affordable, quality healthcare.

- **Tax Credits**. Small businesses are already benefitting from targeted tax credits that made insurance affordable for them. More than 4 million small businesses may qualify for tax credits to help them afford insurance.

    - **For the smallest businesses,** with 10 or fewer employees and average annual wages less than $25,000, tax credits cover 35 percent of employer contributions for premiums. The tax credits are on a sliding scale, phasing out at a firm size of 25 employees and average wages of $50,000.

- **Increased Accountability for Rate Hikes.** Insurance companies frequently charge higher premiums to small businesses and they have increased these premiums at high rates in recent years. In September, many states received $1 million grants to strengthen their premium rate review process. Some states have already used these funds to more widely publicize rate increases and demand more actuarial justification for them. Beginning this year, states and the Department of Health and Human Services will be publicly posting information relating to many proposed rate increases that are 10 percent or higher.

- **Better Information**. Right now small businesses can compare local insurance coverage information on **www.healthcare.gov**. Small business owners can log on to see what plans are available in their area. Users can determine their eligibility for different private and public coverage options.

- **Insurance Exchanges**. Starting in 2014, small businesses can shop for insurance in an exchange that will give them similar purchasing power as large businesses. Exchanges will offer more choices of high-quality coverage and lower prices. Small businesses will benefit from insurance with lower administrative costs compared to the choices available in the small business market today because they will be able to pool together. The non-partisan Congressional Budget Office has found that exchanges will lower the cost of health insurance by as much as 4 percent.

Improving Regulations for Small Businesses. President Obama is committed to listening to and working with small business in order to better understand where the Administration can improve regulations. In addition to the Startup America Initiative:

- **Regulatory Flexibility for Small Businesses.** The Office of Advocacy (Advocacy), at SBA is responsible for overseeing Federal agency compliance with the Regulatory Flexibility Act (RFA). As part of this oversight, Advocacy works closely with regulatory agencies to ensure they consider the impact of their regulations on small business before a rule becomes final. As part of this process, Advocacy is able to help the agency craft regulatory alternatives that accomplish the agency's objective while reducing the economic burden on small business. In FY 2010, Advocacy's involvement with agency rulemaking helped save small businesses nearly $15 billion in foregone regulatory costs. For more information on Advocacy's work

and cost savings figures, please visit:
http://www.sba.gov/sites/default/files/files/10regflx.pdf.

VIII. Conclusion

The United States of America was built through hard work and innovation. But each great idea, before it grows and becomes real, needs to have a home. Our Nation's small businesses are that home. From the "mom and pop" stores that just keep scaling up, to the two friends in a garage that invent the next big thing, the United States has been—and under the Obama Administration will continue to be—the premier environment for small businesses of all sectors and sizes to start up, grow, and succeed.

Over the past two years, the President and agencies across the Administration have worked to implement policies and programs to help small businesses to start and grow and have encouraged public-private partnerships to support workforce re-training and entrepreneurship. These have included providing tax cuts to help small businesses grow and create jobs, expanding access to capital for small firms, expanding entrepreneurship education and mentorship programs, strengthening and educating our workforce, identifying and removing unnecessary export barriers to help small businesses expand overseas, and investing in promising new clean energy technologies to support high-growth start-up companies.

Over the next two years, the President and his Administration will do even more to enact the legislation and build the best policies possible to help our innovators, entrepreneurs, and small business owners revitalize the economy. To do this, the Administration will come to you— the Americans all over the country that are building the businesses to house the next generation's great ideas. The Administration understands that coming together is just the beginning but that working together ensures success.

STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

June 21, 2011

Chairman Sam Graves and
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Nydia Velazquez
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

RE: State Small Business Credit Initiative

Dear Chairman Graves and Ranking Member Velazquez:

The State of Michigan would like to express its continued support of the State Small Business Credit Initiative (SSBCI), which is critical in helping states to assist small businesses in gaining access to the capital they need to survive and grow. Michigan continues to experience a severe contraction in our credit markets, making it impossible for many small businesses to access the capital they need. Successful small businesses, and business owners, continue to be denied bank loans for the mere fact that they are in a certain area or industry. This is exacerbated by the precipitous drop in property values caused by the Wall Street financial crisis. The SSBCI helps fund the tools proven to correct the deficiencies in the credit market.

The SSBCI was partly modeled after Michigan's innovative loan enhancement programs, and will allow those programs to continue to support Michigan's small businesses. The federal dollars will support several programs in Michigan including the Capital Access Program, the Collateral Support Program and the Loan Participation Program.

Michigan has gained a reputation throughout the country as an incubator for new, innovative capital programs, and a track record of success over the last few decades. In 1986, Michigan created the Capital Access Program, which has been adopted by nearly 30 other states. Since its inception, the program has invested $3.5 million dollars, resulted in over 11,000 loans totaling almost $100 million dollars to Michigan businesses that may have otherwise been unavailable.

In 2009, Michigan created the Collateral Support and Loan Participation programs, providing powerful solutions to assist small businesses in gaining access to credit. Both of these programs were uniquely designed to address the devastating impediments to lending which still exist in the credit markets. The programs have been hugely successful in Michigan. We have not experienced a single loss while generating nearly $200 million in private loans with a small public investment over the last year. These programs actually have a positive cost per job. That is to say, the program has already experienced a return on dollars committed of over $300 per job saved or created. Both programs are currently being copied and implemented by other states applying for SSBCI allocation.

We urge continued support for this important initiative and are confident that it will continue to play a critical role in the recovery of our small businesses and their employees.

Sincerely,

Rick Snyder
Governor

STATEMENT FOR THE RECORD

THE FINANCIAL SERVICES ROUNDTABLE

On

The U.S. House Committee on Small Business Hearing on

"The State of Small Business Access to Capital and Credit: The View from Secretary Geithner?"

June 22, 2011

The Financial Services Roundtable ("Roundtable") respectfully offers this statement for the record to the U.S. House Committee on Small Business hearing on **"The State of Small Business Access to Capital and Credit: The View from Secretary Geithner?"**

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

The Roundtable Supports Small Business:
The Roundtable is committed to helping small businesses obtain the capital they need to meet their financial challenges. Small businesses are a vital component of the nation's economic growth and well-being. Small businesses have led job formation during previous economic recoveries. As a nation, we must ensure that viable small businesses have access to financing so that entrepreneurs can again play a prominent role in leading our country's economic recovery.

The Small Business Jobs Act
Access to capital and credit is a critical for any small business. The federal government plays a key role in helping small businesses obtain the capital they need to meet their financial challenges. The Financial Services Roundtable actively advocated for passage of the Small Business Jobs Act because we firmly believe this new law will stimulate lending to existing small businesses and encourage more people to become entrepreneurs and start small businesses. As a longtime advocates and supporters of small businesses, the Financial Services Roundtable is committed to making the Small Business Jobs Act a success.

SSBCI:
The Roundtable strongly supports the SSBCI program (included in the Small Business Jobs Act). The SSBCI program, administered by the United States Department of the Treasury, represents a three-part collaboration between the US Treasury, state governments, and private lenders. While Roundtable members are actively involved in small business lending around the country, the SSBCI program will help to increase the availability of credit for small business lending and thereby promote job creation and economic growth in every state.

The deadline for states to participate in the SSBCI program is June 27, 2011. The Roundtable strongly believes our country cannot afford to miss this tremendous opportunity to partner with the private sector, specifically the small business community. Thus, we have reached out to states and urged them participate in this unique initiative that will increase opportunities for small businesses to access needed capital, maintain and expand operations, increase inventory, and most importantly, recruit, train, employ and retain quality employees.

SBA:
The Roundtable shares the goal of the Small Business Administration (SBA) of increasing small business lending and putting more capital in the hands of small businesses to help them not only stabilize, but also expand and create jobs. We supported the provisions in the Small Business Jobs Act that increased the lending limits for the 7(a) and 504 programs. Further, we supported the increase in the maximum loan limit for the SBA's loan guarantee program. SBA believes, and we agree, that many of the changes that were made to SBA programs will make

these and other loan programs even more viable.

Conclusion:

The Roundtable supports the committee's efforts to review areas where it can support small businesses, as well other alternative avenues, to help create business opportunities through innovative policy solutions that will help create a foundation to build a strong and prosperous economy. We believe small business issues are critical to our nation's health and deserve nothing less than Congress' full attention. We stand ready to continue to work with the small business community, Congress, and the Administration to help our nation's economic recovery.

MCUL CUcorp
MICHIGAN CREDIT UNION LEAGUE & AFFILIATES

June 22, 2011

The Honorable Sam Graves
Chairman
Committee on Small Business
United States House of Representatives
Washington, DC 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, DC 20515

Chairman Graves and Ranking Member Velazquez:

The Michigan Credit Union League & Affiliates represents more than 325 credit unions headquartered throughout Michigan serving more than 4.5 million members. Of these, more than 140 of these institutions offer small business loans to their members. While access to small business credit significantly declined over the past few years, Michigan's credit unions increased the amount of capital made available to their small business members. In 2010, more than 30 Michigan credit unions partnered with 12 regional Small Business Technology and Development Centers across the state to provide access to millions of additional capital for start-up and small businesses. While many lenders in the marketplace continue to find it difficult to lend in the current environment, credit unions continue to seek ways to increase our ability to serve small business members and their credit needs.

As you take testimony on "The State of Small Business Access to Capital and Credit: The View from Secretary Geithner", I want to communicate the importance of funding the Michigan Economic Development Corporation's (MEDC) loan enhancement PILOT, which is the precursor to the SSBCI fund. Successful risk mitigation continues to a critical component to small business lending in Michigan. While our economy continues to evolve, collateral values found in residential and commercial real estate continues to decline. State-level risk mitigation programs are more important than ever in bridging the gaps between acceptable risks and qualified borrowers. Programs such as the MEDC's Capital Access Program (CAP) continue to play an increasingly important role in ensuring necessary credit is flowing to small businesses at a time when the economic conditions (and regulators) are forcing many lenders to pull back on their business lending.

To date, $3,876,000 in loans have been supported by $1,432,240 of the MEDC's loan enhancement PILOT program. These loans have been made to Michigan manufacturing businesses who have had difficulty securing capital from commercial banks. Over the course of the next 5 years, these businesses have indicated they will create or retain 151 jobs. The PILOT was a $26.3 million dollar program which is now fully expended and operating on a supplemental allocation until additional SSBCI funds are available. The MEDC continues to actively work with Commercial Alliance, one of Michigan's three credit union service organizations (CUSOs) to support additional financing opportunities as they arise.

The Michigan Credit Union League & Affiliates strongly urges your support of additional SSBCI funding. We look forward to working with Representative Gary Peters and the rest of the House Committee on Small Business on the need for continued funding of state-level loan enhancement programs to further assist in Michigan's economic recovery.

Sincerely,

David Adams
President & CEO

cc: Members of the House Committee on Small Business

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INDEPENDENT COMMUNITY BANKERS of AMERICA®

June 22, 2011

Community Banks Vital to Small Business Growth

On behalf of its nearly 5,000 community bank members, ICBA is pleased to submit this statement for the record on "The State of Small Business Access to Capital and Credit: The View from Secretary Geithner." This hearing is a natural complement to last week's Small Business Committee hearing in the Subcommittee on Economic Growth, Tax and Capital Access on the impact of the Dodd-Frank Act on small business lending. ICBA was fortunate to be represented at that hearing by Greg Ohlendorf, President and CEO of First Community Bank and Trust in Beecher, IL.

Community Banks Stand Ready to Help

The past few years have been tumultuous for community banks, but the vast majority are well capitalized and are helping to lead the economic recovery. Community banks are prolific lenders to small businesses. Community banks fund 58.3 percent of all the small business loan balances as of the first quarter 2011. In his recent speech before the ICBA annual convention, Federal Reserve Chairman Ben Bernanke shared new Federal Reserve Bank research that shows that while overall small business lending contracted during the recent recession, lending by a majority of small community banks (those of less than $250 million in assets) actually increased, and small business lending by banks with asset sizes between $250 million and $1 billion declined only slightly. By contrast, small business lending by the largest banks dropped off sharply. The community bank business model is built on longstanding relationships with our small business customers and we stand by them in good times and bad.

Examination Environment Adversely Impacts Small Business Lending

In reaction to the recent financial crisis, we believe the pendulum has swung too far in the direction of over-regulation, with a chilling effect on lending. In the current environment, good small business loan opportunities may be passed over for fear of a bank examiner's harsh view of additional lending in particular markets. A contraction in credit will continue to have an adverse impact on the recovery.

Community bankers from every part of the country, but especially those hardest hit by the recession, are reporting an unmistakable trend toward arbitrary, micromanaged, and unreasonably harsh examinations. In particular, field examiners are second guessing bankers and independent professional appraisers and are demanding aggressive write-downs and reclassifications of viable commercial real estate loans and other assets.

Furthermore, examiners are demanding capital levels that are often higher than those required by regulation. Many community banks complain that the required capital level goalpost is unpredictable and regulators simply keep moving it further, making it nearly impossible to satisfy capital demands in a difficult economy and capital marketplace. As a result, bankers are

1615 L Street NW, Suite 900, Washington, DC 20036 ▪ 202-659-8111 ▪ Fax 202-659-9216 ▪ www.icba.org

forced to pull in their horns and pass up sound loan opportunities in order to preserve capital. This is not helpful for small business lending, overall economic growth, or job creation.

Legislative Help is Needed

ICBA supports legislation to bring more consistency to the examination process. One key area in which a more consistent approach is needed is loan classifications. Arbitrary loan classifications are a particular source of frustration to community bankers. Representative Bill Posey's Common Sense Economic Recovery Act (H.R. 1723) would establish conservative, commonsense criteria for determining when a loan is performing and provide for more consistent classifications. This bill would give bankers flexibility to work with struggling but viable small business borrowers and help them maintain the capital they need to support their communities.

Communities First Act

The ICBA-backed Communities First Act (CFA, H.R. 1697) captures many reforms that would help community banks support their small business customers by reducing costly and unnecessary regulation. This legislation was recently introduced in the House by Rep. Blaine Luetkeymeyer (R-MO) and cosponsored by members from both sides of the aisle. ICBA is working to introduce a similar bill in the Senate. Among other provisions, CFA would:

- Provide relief from the dead weight loss of regulatory paperwork that consumes scarce community bank resources;
- Extend the 5-year net operating loss (NOL) carryback provision to free up community banks capital now when it is most needed to boost local economies; and
- Require the SEC to conduct a cost/benefit analysis for any proposed accounting change. Accounting rules have a significant impact on the ability of community banks to lend to small businesses.

These and other provisions would improve the regulatory environment and community bank viability, to the benefit of their small business customers and communities.

Small Business Lending Fund

Squeezed between regulatory demands to raise capital above minimum standards, and private capital markets that remain frozen for small and mid-sized banks, many community banks are forced to reduce their lending in order to boost their capital ratio. For the thousands of small businesses that rely on community bank lending, this contraction in credit could not come at a worse time.

Alternatives sources of community bank capital are needed to support small business lending. ICBA supported enactment of the Small Business Lending Fund (SBLF), a $30 billion Treasury program structured to incentivize increased small business lending by participating community

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banks of less than $10 billion in assets. ICBA wants to make certain the SBLF works as intended by Congress, providing Tier 1 capital to all interested and eligible community banks to boost small business lending, economic activity, and job growth. Each dollar of SBLF capital can be leveraged by community banks to support as much as $10 of new lending. ICBA was pleased to note that nearly 800 banks have applied for this SBLF program.

Further, by bolstering community banks that take advantage of the program, the SBLF has the potential to deter further industry consolidation. When community banks are acquired by regional and mega banks, small businesses suffer because they are better served by community banks than by any other sector of the industry.

The interested banks that have applied for SBLF funds are anxious to have a response. The program's authorization expires one year after the date of enactment, September 27, 2010 – just over three months from today. We urge Treasury to promptly deploy SBLF capital. Further delay will only jeopardize the value of SBLF capital as a potential component of the economic recovery.

Conclusion

Thank you for holding this hearing and for the opportunity to submit this statement for the record. We share your commitment to ensuring that small businesses have the credit they need to grow, thrive, and create jobs.

WOLVERINE
Metal Stamping, Inc.
3600 Tennis Ct.
St. Joseph, MI 49085

June 17, 2011

Chairman Sam Graves
House Small Business Committee
2361 Rayburn Office Building
Washington, D.C. 20515

Ranking Member Nydia Velazquez
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

RE: State Small Business Credit Initiative

Dear Chairman Graves and Ranking Member Velazquez:

Reflecting back on how the Credit Market was "seized up" back in 2009, the MEDC Collateral Support Program was critical to allowing Wolverine to complete a required refinance of its equipment and recover from the severe economic downturn in 2008 & 2009. Wolverine had a signed commitment from GE Capital in September 2008 to complete new financing. GE Capital stopped their lending on September 15, 2008, shortly after the Lehman Brothers Bankruptcy, when their sources of funds came to an abrupt end.

Wolverine worked with several Financial Institutions in late 2008 and during 2009 on financing and made little progress until the MEDC Collateral Support Program was introduced in June 2009. We received approval in September 2009 from the MEDC and completed our new financing on February 12, 2010 with Omni Community Credit Union as the Lender.

In February 2010 our employment had declined to 52 individuals. Six months later our employment had improved by over 50% to over 80 individuals, as the result of new and improving Business. The MEDC Collateral Support Program and Omni provided the financing needed to handle the downturn and facilitate the new business.

Thanks to the support of the MEDC, Wolverine is continuing to grow from sales of $13,500,000 in 2009, to 2010 sales of nearly $19,000,000 and increasing to near $30,000,000 in 2012. However, Banks still are reluctantly lending and I believe that the MEDC Programs are critical to keeping a growing Manufacturing base in Michigan.

Sincerely,

Bruce F. Weber

CFO/Treasurer

United Metal Products
Dies • Stampings • Assemblies
www.unitedmetalproducts.com

June 17, 2011

Chairman Sam Graves
Ranking Member Nydia Velazquez
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

RE: State Small Business Credit Initiative

Dear Chairman Graves and Ranking Member Velazquez:

In the months after our closing on loans utilizing the Credit Enhancement Program, we have seen the effects of the program from our perspective more fully. We initially sought a loan to purchase a building, from several large out of state headquartered banks and some in state during 2009. The purpose was to buy a building to move our small defense contracting company AME International into, since our lease was expiring and we felt we could save money by owning our own building. As we moved into late '09 and into '10 we ran into a brick wall for most banks loaning in Michigan. We had one eastern bank simply tell us they did not want to loan in Michigan, period.
Banks had redlined Detroit, metro Detroit and the entire state we were finding out. We also began to not feel comfortable with our existing bank at the time for United Metal Products, which is based in Detroit, MI. While United Metal Products made money in 2009, and did well in early '10, we still had a problem renewing our line for UMP, and getting a loan to buy the building for AME International, our then purchased defense contracting company.
We found a bank that understood the MEDC program, and how it mitigated risk for the bank, along with other advantages for them. We were able to refinance UMP, and buy the building for AME and move them there.
AME could not have survived without lowering their monthly building rental costs. The availability of inexpensive buildings and the CEP made that possible. We actually improved the facility they had with the new building, financed using the CEP and kept them from shutting down. At the time they employed approximately six people.
United Metal Products was able to refinance our entire operation and knocked our borrowing costs down monthly by over $5,000/mo. Again, we are and were strong financially but could not get banks to listen to us. When one finally did, both parties benefitted. We have about 20 people employed here. We have been back to working five days a week for about a year. I'm not sure what the future would have held for us, had we not been able to get new financing enabled by the credit enhancement program and the MEDC.

Sales at United have nearly doubled since our low point in late 2008 and early 2009. We continue to have a future as a small manufacturer, and have added two people since that time. First Michigan, now Talmer Bank and Trust, invested in us and hopefully it will pay off for everyone involved. And right now, we are on the right track.
Thank you for all your help along the way.

Best regards,

Leonard MacEachern

Leonard MacEachern-CEO
United Metal Products
AME International of Michigan

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June 22, 2011

Chairman Sam Graves
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Nydia Velazquez
House Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

RE: State Small Business Credit Initiative

Dear Chairman Graves and Ranking Member Velazquez:

Thank you for the opportunity to provide you with a brief summary of how the MEDC's Credit Enhancement Program has assisted our company during these challenging times.

The funds provided by the MEDC were matched by the Bank of Ann Arbor and totaled $300,000 of additional capital in 2010.

We used these funds to accelerate two initiatives. First of all, we successfully found new markets for our existing products. In 2010 we shipped several thousand wooden ladders to various customers for use as retail display fixtures. Some of these customers include Sears, Tommy Hilfiger, Harry & David and most notably Victoria's Secret.

Second, we accelerated our initiative to begin the assembly of fiberglass ladders in our facility in Ypsilanti. As the oldest ladder manufacturer in the country we have always made wood ladders and purchased fiberglass and aluminum ladders from vendors in other countries.

We launched an initiative several years ago to begin assembling fiberglass ladders in the United States. Given the global recession and scarcity of capital, progress on this project slowed from 2008 to 2010. The additional capital helped to move this project along once again and we expect to begin the assembly of fiberglass ladders later this year.

This will result in new jobs that we never had before and a new era for our ladder company.

Many thanks for your support.

Best regards,

Thomas P. Harrison

Thomas P. Harrison

WIPP
Women Impacting Public Policy

Testimony of Women Impacting Public Policy

House Committee on Small Business

"The State of Small Business Access to Capital and Credit: The View from Secretary Geithner"

June 22, 2011

Women Impacting Public Policy (WIPP) wants to thank Chairman Sam Graves and the members of the House Small Business Committee for holding this hearing on accessing capital and credit. Small businesses play a vital role in the nation's economy, it is important that they have access to funds that allow them to grow, and in turn, grow the economy.

Despite some signs of economic recovery, the current economic climate is not friendly to small businesses. A recent report from the Small Business Administration Office of Advocacy stated that small business lending has steadily declined the last three quarters.[1] The lack of lending along with weak sales and higher gas prices leaves many small business owners with a less than optimistic outlook on the future. According to the Department of Commerce, last month US retailers reported a drop in sales of 0.2%.[2] This is the first decline after 10 months of increases.[3] And according to AAA, gas prices are currently a dollar higher than they were at this time last year.[4] Therefore, not only are businesses selling less, they are spending more for basic goods and services.

WIPP is a national, nonpartisan public policy organization representing half-a-million members. WIPP educates and advocates in the legislative process on behalf of women-owned businesses.

Small Business Growth is Vital for Economic Recovery

It is often said that small business is the engine that drives the economy. However, even that statement may be underestimating the importance of the role that the small business community plays in the nation's economic health. According to the Small Business Administration Office of Advocacy, small businesses represent 99.7% of all employer firms, while employing over half of all private sector employees.[5]

Moreover, according to the Association for Enterprise Opportunity, 80% of all business in the US are small businesses with fewer than five employees.[6] If just one out of three of these small businesses hired an additional employee, the US would be at full employment.[7] These statistics underscore just how large of a role small businesses play in the nation's economic health. Given the importance of the small business contribution to the economy, it seems that improving access to capital programs for small businesses should be a top priority for Congress and the Administration.

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[1] CNN Money, Small Business Lending Plummets," http://money.cnn.com/2011/06/16/smallbusiness/small_business_lending/index.htm
[2] The Hill, "Retail Sales Fall for the First Time in Nearly a Year," http://thehill.com/blogs/on-the-money/801-economy/166265-retail-sales-fall-for-the-first-tim-in-nearly-a-year
[3] Id.
[4] Wall Street Journal, "Gas Prices Drive a Shift," http://online.wsj.com/article/SB10001424052702304453304576391970280109838.html?mod=WSJ_SmallBusiness_LEFTTopStories
[5] US Small Business Administration Office of Advocacy, "How Important are Small Businesses to the US Economy," http://www.sba.gov/advocacy/7495/8420
[6] Association for Enterprise Opportunity Works, "One In Three," http://www.aeoworks.org//pdf/one_in_three.pdf
[7] Id.

Improved Access to Capital Programs Will Benefit Women Small Business Owners

WIPP wants small business lending programs that work and supports changes to programs that would make these programs perform more quickly, more efficiently and allow for greater participation by lenders and borrowers. Too often small business become mired in red tape and give up trying to make their way through complex lending requirements, or they end up waiting on approved credit to make its way down to them.

According to the National Women's Business Council, there are 7.8 million women-owned businesses in the United States.[8] Of those businesses, 88.3% of them are non-employer firms with average receipts of $26,486.[9] For these businesses, the ability to access capital is vital to experience any type of growth. Moreover, women business owners face additional challenges regarding their access to capital. According to the Women's Business Center, women business owners who obtained capital persevered, making an average of four attempts to obtain bank loans or lines of credit and 22 attempts to obtain equity capital.[10]

Access to capital is a key tool in the start-up and growth of any successful small business. Larger, faster-growing women-owned firms are more likely than other firms owned by women to use credit. Women-owned firms with revenues of $1 million or more are more likely to access commercial loans or lines of credit than are other women-owned firms (70% vs. 28%).[11] However, even these larger businesses owned by women lag behind their male counterparts in using commercial credit (56% of women vs. 71% of men).[12] WIPP has found that less than half of its members who attempt to obtain outside funding are successful. Those members who do secure funding, most often use it to finance their existing business.

Changes Must Be Made To Increase Small Business Lending

WIPP is concerned about the relatively low percentage of participating banks in the Small Business Lending Fund (SBLF) program and the length of time it has taken to disperse these funds to the lending banks. Only about one-third of the $30 billion in available funds was sought by banks for small business lending and not one bank has received lending capital. It is clear from our members that access to capital is not only an important issue, but a pressing need. With so many small businesses seeking funding, something must be done to get that capital off the sidelines.

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[8] National Women's Business Council, "Women Business Owners and their Enterprises," http://www.nwbc.gov/idc/groups/public/documents/nwbc/wbo_firms_factsheet2010.pdf

[9] Id.

[10] Women's Business Center, "Women-Owned Business Facts," http://www.wbc-rgv.org/?page_id=268

[11] Women Impacting Public Policy, "Economic Blueprint Access to Capital Principles," http://www.wipp.org/resource/resmgr/Docs/EconomicBlueprint-2011.pdf

[12] Id.

While we are pleased to hear that the Department of the Treasury will begin to disperse lending funds soon, we encourage the Congress to work with the Treasury Department to make changes necessary to fully utilize the Fund. WIPP and many other small business organizations supported its creation because of the dire need for more capital. It is frustrating to hear from our members about their need for capital and their difficulty in obtaining it when around $20 billion in funds sits unrequested by banks.

According to the Association for Enterprise Opportunity, major US banks turned down around one million applications for small business financing last year.[13] This number must improve. It is in the best interest of our fragile economic recovery that the small business community receives funding in a timely fashion in order to best put that capital to use.

Increase Technical Assistance for Loans

WIPP believes that technical assistance is key to greater successful loan applications at all levels of funding. Funding for the PRIME program, the technical assistance that accompanies the Microloan program, and support for SBA supported counseling organizations are all critical to obtaining capital. According to WIPP's Annual Issues Survey, women businesses report that they are not availing themselves of bank loans, alternative funding sources, Small Business Administration backed loans and microloans. This shows a need for greater education on funding sources and strategies for growth. We encourage the Committee to view funding for technical assistance as a strategy for small business growth.

Conclusion

In conclusion, WIPP represents a wide range of business owners in terms of revenues, ethnicity and industry sectors. Yet, a uniform message we hear from them concerns the difficulty in accessing capital for their small business needs. In whole, our membership is optimistic about economic recovery and looks forward to being able to grow their small businesses. However, a stronger economic future can best be achieved by improving access to capital programs to ensure that not only are small business lending funds dispersed to the appropriate businesses, but that small businesses receive that capital in a timely manner.

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[13] Association for Enterprise Opportunity Works, "One In Three," http://www.aeoworks.org//pdf/one_in_three.pdf

MISSOURI CREDIT UNION ASSOCIATION

June 23, 2011

The Honorable Sam Graves
U.S. House Small Business Committee Chairman
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Graves:

Recently the United States Senate Committee on Banking, Housing and Urban Affairs, as well as the United States Senate Committee on Small Business and Entrepreneurship each held hearings on small business issues critical to credit unions and their 90 million members, including 1.3 million members in the state of Missouri. On behalf of the Missouri Credit Union Association, I would like to take this opportunity to comment on issues raised during those hearings, and respectfully request that you consider conducting an oversight hearing on whether or not the banking industry is appropriately utilizing the federal funds provided last year for the purpose of stimulating small business lending.

The Senate Banking Committee on June 16 held a hearing on expanding credit union member lending opportunities, with a focus on S. 509, legislation sponsored by Senator Mark Udall that would raise the permissible amount of lending and increase prudential standards for such loans. As you know, Congressman Edward Royce has introduced companion legislation, H.R. 1418, in the United States House of Representatives.

Credit unions have made loans to members for business purposes since their inception in 1908. While initially those loans were principally made for agricultural activities, over time credit unions have adapted their lending practices to meet the changing needs of the small business community. Today's credit unions lend to entrepreneurs for a diverse array of small business activities, ranging from business equipment and building purchases to construction loans. The average credit union member business loan is only $223,000, but this kind of lending serves as an important source of credit for small businesspeople who deserve more, not fewer, options in a complex and changing marketplace.

Approximately 2,259 of the nation's 7,442 federally insured credit unions make loans to members for business purposes. Member business lending comprises 6.4% of all credit union loans, and around 1% of all commercial lending. These numbers suggest that credit unions fill a small but important niche in the marketplace. In Missouri, 31 credit unions currently offer member business loans. As of March 2011, the total number of member business loans outstanding for all credit unions in Missouri is $224,343,238, with the average size of a member business loan standing at $163,685. Out of the 41 credit unions serving 100 or more members in Missouri's Congressional District 6, there are currently 13 that participate in member business loans, with a total of $161,878,054 outstanding.

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There are four Missouri credit unions near the member business lending cap. This includes Mazuma Credit Union, based in Kansas City and serving 9,959 members in District 6. Mazuma currently has $38,495,020 in member business loans. With a cap of $51,500,479, the credit union is in a position where it must turn down business loans due to the MBL limit. The other three credit unions near the MBL limit and facing this same challenge are Assemblies of God Credit Union (Springfield) with $13.0 million in member business loans and a cap of $13.3 million; West Community Credit Union (O'Fallon) with $11.5 million in member business loans and a cap of $15.4 million; and Alliance Credit Union (Fenton) with $14.3 million in member business loans and a cap of $21.7 million.

Credit union business lending is closely regulated at both the federal and state levels, a practice the Missouri Credit Union Association welcomes. We recognize that business lending carries with it a distinct set of risks, and are strongly supportive of a legal regime that ensures that such lending will be done prudently and in a measured way appropriate to the ability of each credit union as well as the economic realities of the broader marketplace.

Both Representative Royce and Senator Udall's bills propose a reasonable new standard for credit union member business lending that would simultaneously enable credit unions to make more of their funds available to members to create jobs and assist small businesses, while at the same time strengthening regulatory oversight and enhancing the safety and soundness of credit unions. The bills envision a tiered, gradual increase from the existing 12.25 percent of assets level to a new 27.5 percent of assets. This arbitrary limit has not only prevented much-needed capital from flowing to the entrepreneur community, but also acted as a disincentive to many credit unions in Missouri and across the country from offering this valuable option to their members. The start-up investment of staff and financial resources in creating a viable member business lending program is considerable, a reality that would be remedied by the proposed legislation.

Supervisory safeguards contemplated by the legislation limit any additional credit union business lending only to well-capitalized credit unions, and include a requirement for management experience in order to ensure strong underwriting.

The Missouri Credit Union Association strongly supports both bills. Credit unions stand ready to do their part to facilitate economic recovery by deploying credit union resources to aid the small business community in a safe and sound manner. It is estimated that if the member business lending cap is lifted, 1,676 new jobs could be generated in Missouri and an additional $154,212,459 in business loans made to small business entrepreneurs in the first year. Nationwide, it would bring 140,000 new jobs and $13 billion in new member business loans.

This "zero-dollar stimulus" envisioned by both the Royce and Udall bills, utilizing private sector funds, stands in direct contrast to the $30 billion dollars granted to the banking industry in the Small Business Jobs Act of 2010. While these funds were ostensibly given to banks by taxpayers for small business job creation, little or no evidence exists that banks are actually using those monies in the manner intended by the statute. In fact, the Department of Treasury's Inspector General, in a March report, concluded that "[A]although the small business lending plan is a vital part of an institution's application for the program, neither the FBAs (federal banking agencies) nor Treasury intend to review the likelihood of participants meeting their small business lending goals."

In short, this situation involving the banking industry and the $30 billion dollar government grant warrants close scrutiny by Congress. In May the Senate Small Business Committee conducted an oversight hearing on this questionable use of taxpayer funds by the banking industry. If your Committee chooses to pursue a similar investigation, I would encourage you to call upon the credit union community to participate in such a hearing, not only to discuss credit union interest in assisting small business but also to provide suggestions on ways in which the banking industry might improve its performance.

Banking industry opposition to small business access to credit union loans frequently cites the notion that "credit unions should not be permitted to encroach on 'our' (the banking industry's) market." I disagree strongly with that premise. The small business lending market does not belong to any one kind of financial institution; rather it belongs to the men and women who innovate, create and sacrifice to build a business. Credit unions have historically done much in this area, and I ask your help in empowering them to do even more.

Please feel free to contact me should you have questions and thank you for your support of credit unions and of America's small business community.

Sincerely,

Michael V. Beall, Esquire
President/CEO

cc: Bill Cheney, President/CEO, CUNA
Rob Givens, Mazuma Credit Union
Paul Ebisch, Assemblies of God Credit Union
Gary Hinrichs, West Community Credit Union
Dennis Sommer, Alliance Credit Union