

SMALL BUSINESS ADMINISTRATION: MANAGEMENT AND OUTLOOK

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BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

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SMALL BUSINESS ADMINISTRATION: MANAGEMENT AND OUTLOOK

WEDNESDAY, SEPTEMBER 10, 2014

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, Leutkemeyer, Schweikert, Collins, Velázquez, Schrader, Chu, Hahn, Meng, Schneider, and McLane Kuster.

Chairman GRAVES. We will call the hearing to order. And I would like to welcome everybody for being here, or welcome everybody to the hearing room.

Today we are going to welcome for the first time to the Committee the Honorable Maria Contreras-Sweet, the 24th administrator of the Small Business Administration. Since being confirmed as administrator and a member of President Obama's cabinet of this year, Administrator Contreras-Sweet has been responsible for leading the SBA in its wide array of programs. In addition to overseeing the Agency, including its loan portfolio worth more than \$100 billion, the administrator is responsible for positioning the SBA to succeed in the years ahead. And with this hearing, we plan to both examine the current management of the Agency and develop better insight as to how the SBA has poised itself to tackle future challenges in a dynamic, economic climate.

We all know that small businesses are the engines of our economy and responsible for the creation of two-thirds of all new jobs, and access to capital is critical to these job creators. In the last fiscal year, the SBA supported more than \$29 billion in lending to small businesses, and this was led by the 7(a) Loan Program, which guaranteed over \$17 billion in lending and is on pace to do so again this year.

The SBIC program also had another record year and the 7(a) and 504 loan programs required less taxpayer dollars to operate last year than in any since the recession. While there have been recent successes, fundamental concerns associated with the SBA's management remain. As the Committee has expressed before, the Agency continues to create policy without the benefit of notice and comment rulemaking, thereby ignoring valuable input of those affected.

For example, in June, an announcement of a new credit scoring model for loans of under \$350,000 was made by an internal agency

notice. Additionally, the Agency has a history of pursuing initiatives it creates on its own while ignoring congressional mandated activities. Contracting reforms this Committee debated and approved and which were signed into law more than two years ago have not been fully implemented, while resources instead have been devoted to potentially duplicative, unauthorized entrepreneurial development programs dreamed up by the Agency with little public input.

To ensure the Agency is accountable and operating in the most efficient manner while reducing risk to the taxpayers, it is critical moving forward that the SBA works with Congress, complies with the law, and engages the public more effectively.

We are very fortunate again to have the administrator here with us today, and we look forward to hearing her perspective and working with her to improve SBA and better serve small businesses. And I now recognize Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

This hearing is timely. While we have not yet seen the pace of economic growth all of us would like, America's entrepreneurs are creating jobs, growing, undoubtedly leading us back to prosperity.

In August, small firms with fewer than 500 employees led job growth, adding 153,000 positions to the payrolls. At the same time, early August numbers for the broader economy were disappointing. Clearly, the outlook for both our recovery and the small business sector remains mixed. Small businesses do appear poised to ramp up investment in their operations. A recent survey found 51 percent of companies with less than \$20 million in revenue, plan to increase capital spending during the next year, an investment that will hopefully fuel further growth.

Despite positive trends, obstacles remain. Access to capital is a perennial challenge for entrepreneurs. That remains the case today. Even now, lending activity has not returned to pre-recession levels. Commercial loans of less than \$1 million, loans that primarily go to smaller companies, remain down by about 20 percent, compared with the year leading up to the financial crisis. At the same time that capital is tight, two-thirds of small companies report rising expenses in broadening their businesses. Fully a quarter of firms say rising costs are the biggest challenge, making clear the need to expand entrepreneurs' financing options.

Likewise, small businesses continue seeking demand for their goods and services. This committee has repeatedly examined how small firms and other disadvantaged businesses can benefit with the federal government as a customer. While the federal government may hit its 23 percent small business contracting goal this year, more can always be done.

In all these areas, the SBA performs a vital mission, and I just want to take this opportunity to welcome Ms. Contreras-Sweet to the SBA. I am looking forward to working with you. SBA credit programs get capital into the hands of small firms by guaranteeing loans that banks might otherwise be unwilling to make. Last year, the agency supported \$29 billion in loans to small firms. As commercial credit remains tight for small companies, it is critical the agency continue helping entrepreneurs access capital.

Likewise, the agency has a crucial role in ensuring federal agencies meet their small business contracting goals. While hitting the 2013 government goal constituted progress, it comes after small businesses received nothing for many years. The entire federal government can and must do better. For aspiring entrepreneurs and early-stage businesses, the SBA is equally important. Studies have consistently shown that federal investment in these programs net a positive return for the taxpayers.

I look forward to hearing how the agency will manage these programs in the future. The small business administration can provide an important boost to small companies, and when small businesses succeed, the broader economy does well. In that regard, I look forward to hearing the administrator's views on how the agency is currently functioning, what improvements can be made, and how she plans to strengthen SBA services to benefit America's entrepreneurs.

Mr. Chairman, I thank you for this time, and I yield back.

Chairman GRAVES. Okay. Testifying before us today is the Honorable Maria Contreras-Sweet, who is the administrator, as we have mentioned, of the Small Business Administration. The administrator oversees the Agency's loan portfolio, as well as small business counseling and contracting programs. Administrator Contreras-Sweet is a successful entrepreneur, business executive, and former state cabinet official, and prior to taking over the helm of the SBA, she founded the first Latino-formed commercial bank in California in more than 35 years and focused on providing access to capital and counseling to small- and mid-size businesses in Los Angeles. She also started and ran a venture capital firm that invested in small businesses.

Administrator, thank you for being here. I look forward to your testimony.

**STATEMENT OF MARIA CONTRERAS-SWEET, ADMINISTRATOR,
UNITED STATES SMALL BUSINESS ADMINISTRATION**

Ms. CONTRERAS-SWEET. Thank you so much, Chairman Graves, and to you, Ranking Member Velázquez. I am delighted to be with you and with all of the members of this wonderful Committee. Thank you for the opportunity to address you today.

Since being confirmed, I have taken time to sit with many of you, and I have come to know that you not only share my passion to promote entrepreneurship, but have been actively engaged in supporting our nation's small businesses. I am grateful to you.

In my engagement with the chairman and ranking member, I have seen firsthand the bipartisan commitment of this Committee, working together to help small businesses. At the SBA, our team remains focused on our core mission of facilitating access to capital, counseling, contracts, and disaster assistance. When meeting with our lenders, clients and borrowers, I understand their concerns because I have been in their shoes as an entrepreneur, five years as California's chief bank regulator, and in starting a community bank. This guides my belief that SBA can help more businesses create jobs.

I have also learned the significant work that happens in this Committee and the importance of working with you to make our

programs better and the Agency run more effectively. SBA's capital is infusing dollars into local markets and improving our American economy. Small businesses inject capital into the economy more quickly as they cover payroll, buy equipment, and acquire local real estate. This is good, so we can stamp more often "invented, grown, and made in the USA."

In the 21st century, the SBA must be as innovative as the businesses we serve. I want SBA to mean "Smart, Bold, and Accessible." Implementing smart systems so our agency keeps pace with the technological advances that change how Americans conduct their business. Championing bold initiatives to open new business channels for entrepreneurs within the federal government, corporate supply chains, and international commerce. And making our services more accessible to small business owners, regardless of their gender, race, age, or neighborhood.

From my conversations with Chairman Graves, and many of you, we see that the prevailing challenge SBA faces is that our loan documentation is too complex and labor intensive, forcing banks to hire specialized staff, contract it out, or worse, walk away from loans. We cannot afford to lose these partners and turn job creators away. To combat this, we have launched a predictive business credit scoring model the SBA has been developing for more than a decade, combining an entrepreneur's personal and business credit scores. This new scoring model is now available to all of our lending partners for loans of \$350,000 or less, making it easier and less time-consuming for banks to do business with us and for entrepreneurs to do business with them.

Strong stewardship of our flagship 7(a) program has allowed us to keep fees at zero on loans less than \$150,000, and we continue to operate it at zero subsidy. The 504 program is moving closer to zero subsidy. Next year, we will roll out SBA-1, an interactive, user-friendly platform. It will automate the uploading of documents and generation of forms, and allow for electronic signatures. On each 7(a) loan, the SBA will say banks' hours of processing time and money. The combination of predictive credit scoring and SBA-1 will incent more banks to partner with us to promote underserved lending, generating more loans and igniting more economic activity.

Being bold means opening new markets, both here and abroad. Over the next decade, new markets around the world are going to open up, but only 1 percent of small businesses are selling to them. We are focused on ensuring small businesses have the financing they need to engage internationally.

I am pleased to announce that for the first time in eight years the federal government met the 23 percent goal of federal contracting to small businesses in FY13. This was an important achievement, but lamentably, we fell short of our women-owned contracting goal. We must do more to meet it.

The face of entrepreneurship is changing in America. Being an accessible SBA is key. More of those faces today belong to women, to Latinos, to African-Americans, Asian-Americans, Native Americans, our veterans, and our seniors. To this end, in addition to promoting small dollar loans, we are focused on building referral net-

works with micro lenders so new businesses can get startup capital.

At the SBA, our team is working to find creative ways to put micro capital into the hands of emerging entrepreneurs. While this has been a priority from Ms. Velázquez, we have all seen too many entrepreneurs with great ideas and products default because of poor financial planning. We look forward to working with her, all of you, and our national network of partners to increase technical assistance to small businesses. Our guarantees allow lenders to make loans they otherwise would not.

The SBA fills market gaps. Every dollar we inject into the economy is capital that would have potentially stayed on the sidelines. I thank you for all your bipartisan commitment to small businesses. Mr. Chairman, I am delighted to take your questions.

Chairman GRAVES. All right. We will start with Mr. Chabot.

Mr. CHABOT. Thank you very much, Mr. Chairman. We are honored to have you here this afternoon, Madam Administrator. And thank you for taking the time to speak with me over the phone last week. I know that you had an opportunity to learn about The Brandery in Cincinnati, which is one of the startup accelerators. It has been quite successful around the country, and the accelerator fund.

Looking at the most recent matrix for the SBA's Capital Access Programs, it is clear that the SBIC program is an important one, and I think the SBIC program fills a critical gap in the market caused by the financial crisis, and to some extent, by the burdens on lenders under Dodd-Frank. But many successful SBICs have hit the family of funds limit, and there are many more funds that will hit it if they raise another fund. In other words, if they try to support more small businesses. So we should encourage investments in small businesses, not limit it.

The administration has previously been supportive of raising this limit. Does the administration still support raising the family of funds limit, and will you work with us to help pass an increase?

Ms. CONTRERAS-SWEET. Thank you, Mr. Chabot, for that question.

I think the SBA sees a very interesting tool. Just thinking and harkening back to my banking days, I can share with you that sometimes we do not always have enough to collateralize a loan, and so I find that the notion of providing mezzanine capital, patient capital, is really key, and I am delighted that this program is blooming and more and more are hearing about the program.

I just received another application for a SBIC yesterday, in fact, so I am pleased to tell you that out of this office, this Office of Innovation and Investment, we were able to shape the growth accelerators to which you just referenced. And I am pleased to tell you that through that program we are incubating the incubators, because it is important to connect with those who wanted just some seed capital to get started. I call it sort of angel financing without taking an equity position. So overall, I find that this program is very complemented to the other suite of programs that we have at the SBA, and I am supportive of it. I have been watching that ceiling, and I can share with you that at least so far I have not seen a challenge with it, but others have come to me, and I would be

delighted to come back and work with you to support the ceiling of that opportunity.

Mr. CHABOT. Yes. We would like to follow up with you and work with you on the family of funds issue. Thank you.

Let me ask you this. All of our financial institutions play a role in small business capital formation, and credit unions are no exception. I happened to speak before the credit union folks who were in town this week, this morning for a while. In fact, they experienced a 12 percent growth in small business loans from last year. Is the SBA trying to collaborate more with credit unions, and if so, could you elaborate on any of those efforts?

Ms. CONTRERAS-SWEET. Thank you again. I have to tell you that I think credit union are quite special. I think they can play a very important role considering that they complement the for-profit community of the private lenders which I was a part of, but I find that their model is quite interesting. And so as soon as I took office, I reached out to the chairman of the regulatory body, Debbie Matts, to engage and to discuss what role—what is the proper role of our credit unions. I was delighted to see their interest in wanting to engage, and I am pleased to share with you that just recently we are now in the throes of actually penning an agreement where we can work more collaboratively and collegially.

I was just in San Diego meeting with our AARP organization, which is also a marvelous organization. And so the three of us are looking to form a troika, if you will. I think credit unions can play a special role, particularly with respect to micro lending, and that is the target that we are looking at.

Mr. CHABOT. Thank you.

Ms. CONTRERAS-SWEET. And it would not affect their business cap, and so I think that it works and it would be complementary to what they are doing already. Thank you.

Mr. CHABOT. Thank you.

I have got about a minute, so let me just ask you this. You had mentioned that you are interested in gauging internationally, meaning trade, I am sure. Do you know if the president is going to expend any political capital anytime in the near future to push some of his allies in the House on TPA, the Trade Promotion Authority, and therefore put us on the road to TPP in the Pacific area, or TTIP in Europe, because international trade is absolutely critical, the economy, and it is kind of a heavy lift, and we have not really seen much effort there by the administration at this point. Not you, but your boss.

Ms. CONTRERAS-SWEET. Thank you. Thank you for that.

I have to tell you that as we see that in the next 10 years we are going to see about a billion new consumers in the middle class join the ranks of the middle class, and so it is important that we keep a keen eye on the international opportunity. Right now, 95 percent of the world's consumers are outside of the U.S., and only 1 percent of small businesses are partaking of that opportunity. So I think it is important for us to look at ways in which we help the small business adapt and grow into international strategies.

So to that end, you know that we have the STEP program that we use. We have, of course, our USEAC centers where we provide services throughout the country. We work collegially with Con-

gress, with the Ex-Im Bank, with all the others, and the president has indicated that he supports TPP and asked us to get behind it as well. I cannot tell you particularly exactly his strategy, but I can tell you that he stands ready to do what he can to encourage small businesses to partake of the enormous international opportunity.

Mr. CHABOT. Thank you very much.

Chairman GRAVES. Ms. Velázquez?

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. And welcome again, Ms. Contreras-Sweet.

Ms. CONTRERAS-SWEET. Thank you.

Ms. VELÁZQUEZ. You mentioned, and I mentioned in my opening statement, that access to capital is still a challenge for a great number of entrepreneurs. And one of the sectors in our economy that is facing serious issues in accessing capital are women entrepreneurs. When the Small Business Jobs Act was passed in 2010, we were told that we needed larger loans to help spur the economy. However, lending volume to women-owned firms actually decreased in that time. More shockingly, larger loans seem to have disproportionately benefited male-led firms. The gap in average loan size reached almost 50 percent in 2011 and remains above 35 percent today. How can we tell women entrepreneurs that the SBA is there for them when such large discrepancies exist, and what do you intend to do about it?

Ms. CONTRERAS-SWEET. Thank you for asking me a question that is very important to me personally, and I started a financial institution because I care deeply about making sure that all people have access to capital in a very consultative and respectful fashion.

So, to that end, on day one, when I inquired about what the opportunities were, I have learned as a banker that there is no one silver bullet for any target market. We have to make sure that we have a continuum of capital available so that as we grow, that the SBA can continue to be there, bearing in mind that the SBA is not there to compete with the private capital markets; we are only there to fill the market gaps.

And so in that regard, we have, I would say, a triple, quadruple prong strategy. First, it is the way we consult our women. We have Women Business Centers throughout the country that are helping them understand how to build a solid, strategic plan. You all know that you gave us an important tool then in terms of once they have a plan, they need to get work. You gave us an important tool, and that is you said to us a 5 percent goal on contracting. We are working on that. We have not reached that goal, but I think we have an opportunity to do more.

One of the first things I did as soon as I took office, my initial first trip, was to launch a ChallengeHER event to help the word get out and also to promote more matchmaking opportunities. But with respect to capital, all of our efforts have been to make sure that all of the stream of capital is available to everybody in that regard. And I can tell you that so many bankers always say that they want to get the bigger loans out, and we have to make sure that we are pushing forward on the small dollar loan.

So you probably have heard, I know that you have been support of the fact that we have zeroed out fees on loans under \$150,000. We are getting the word out through our micro lending program

about that, and we are looking at technical assistance, which I know is so vital. And then, of course, the system that we just recently put in place around the predictive scoring will help community banks get more loans out to women as well.

Ms. VELAZQUEZ. Administrator, I would like to hear at least one or two specific steps that you intend to take in order to make sure that when you come to us and ask to increase the cap, that you can put more money out there. That we benefit a sector that is growing, because we know that women-owned businesses are growing faster than any other group within the economy. But yet, they are facing problems in accessing capital. So I would like to hear that you are going to revise, look, the 7(a) program, the mission of it when it was created was to put money into the hands of able and credit worthy entrepreneurs that for whatever reason had problems accessing capital through traditional banks and traditional lending institutions. So I would just like for you to go back and review the data and see what specific steps you will take.

Now I would like to ask you about Super Storm Sandy, because this is close to home. It happened in New York and the Tri-State area. Right after Katrina, we revamped the disaster program, and we provided tools that gave the flexibility for SBA to act quickly and swiftly and provide a system that homeowners and small business needed in a timely manner so that we could save those businesses that were impacted by any disaster, any natural disaster.

Here we are. The OIG is going to come out with a report on the response of the disaster loan program for Sandy, but what we know is that once again, the disaster program has been exposed, and it shows the shortcomings as long processing times averaged 46 days for small businesses. The budget shows that SBA has requested \$186.9 million for disaster administration next year.

In what ways will this funding be used to reduce processing delays so that businesses and homeowners can get funds more quickly?

Ms. CONTRERAS-SWEET. Thank you again, Congressman, for that question as well.

Let me just say to you that I cannot speak with great specificity about what happened in the past, but what I can tell you is that when we heard about the disaster in the State of Washington, I flew out there immediately to meet with all the people in the Oso, Darrington, and Arlington communities, and I can share with you that within 24 hours of hearing that the disaster was declared, our people were on the beat. And within a few days, money was out the door. And so I think that our systems continue to be refined and continue to be evolve, and will be strengthened over time. I am now on it, and I am delighted to tell you that I think we are making great progress.

Moreover, I just spent yesterday with those who process our loans to find ways in which we can develop organizational systems, to make sure that we are processing them more efficiently, and form a more informed basis.

Ms. VELAZQUEZ. Well, I would like for you to come back to the committee or send us an answer to my question because we provided specific areas that you needed to improve, and to execute those that were continued within the disaster program legislation

that we passed. And some of those tools that were included were not used, and I would like to know that, in fact, you have implemented them so that the next time you are ready to answer and provide the assistance that those businesses need.

About Washington, I do not know. I hear you, but the numbers will tell us whether or not you were able to provide the loans that those businesses needed, because in New York, many of those businesses are not in the system today. Studies show that when a disaster loan strikes, it will take—if you do not provide a response, if you do not provide the system that they need within the four weeks after a disaster, the probability of those businesses not succeeding and getting back on track are very, very high. So after Katrina, now Sandy, I hope, and I pray that we will not face any other natural disaster. But we cannot fool ourselves. We know that it will happen again, and we want to make sure that you have everything you need to have in place so that the administration is able to provide the system—that we promised, that this government promised.

Ms. CONTRERAS-SWEET. I just wanted to add, Ms. Velázquez, that my mother-in-law experienced Northridge earthquake, and I have experienced the riots of Los Angeles. And I want to tell you that disasters are very important to me. I have met with our district offices. I have gone to the sites, and I track our numbers every day. And I am working with our department directly to assure that every one of our programs is well executed and on-time, and on-target budget-wise.

So I thank you for your concern to this topic. I want to assure you that we are on it. Thank you.

Chairman GRAVES. Mr. Luetkemeyer.

Mr. LUETKEMEYER. Madam Administrator, I will take a moment to follow up on a letter that I sent to you, me and my colleagues as well, to the Agency several months ago. The letter addressed changes to the SOP 50-10F, which states we still have some concerns about with the overall policy, but I have heard some assurances from SBA that the policy is currently being amended. I am pleased to know that. What I am following up on today is how the changes came to be, which is without any public input.

According to the regulations, it is required to obtain comment from the public on its rules, and given that fact, many of the standard operating procedures governing the loan programs are actually rules under the guise of standard operating procedures. What actions are you taking to ensure that the public can offer comment on changes to SBA standard operating procedures?

Ms. CONTRERAS-SWEET. Thank you again for that question. We are examining all ways in which the public can engage the SBA while using the usual governmental procedures as well as we are deploying smart systems to make sure that people can communicate with us in the current ways of technology today. And so, for example, we are now launching more initiatives around connecting through the social networks. Our people are getting out in the field more. We are directing them to get out and to do front-end conversations so that we can be proactive in the community. And I want to ensure you that—

Mr. LUETKEMEYER. Let me interrupt just a second here.

Are you advertising this so people who have concerns about it, people who will be in the process of utilizing these services can find this opportunity for themselves? Or is it just stuck on a computer site somewhere and you have got to go digging, digging, digging before you can find it?

Ms. CONTRERAS-SWEET. Thank you for that comment.

No, the Agency has been very proactive in connecting. We have so many outlets to engage the outlet. One, we meet regularly with the NAGGL partners, our government guarantee lending partners. We meet with people through our Women Business Centers, through our SCORE partners, through our Veterans Business Outreach Centers. Our regional administrators are out in the field. Our district directors are out in the field, and our key program lead, regularly hold comment opportunities for those who are affected by any of our programs, to be able to provide feedback and input.

Mr. LUETKEMEYER. Well, the concern is that it did not happen properly on this situation that we tried to address with the letter, and you are assuring me that that is not going to happen again.

Ms. CONTRERAS-SWEET. That is correct, sir.

Mr. LUETKEMEYER. Following up, in your statement you say that on each 7(a) loan, SBA-1 will save banks hours of processing time and money. Do you have a study to show how many hours it is going to save?

Ms. CONTRERAS-SWEET. I can share with you, Mr. Chairman, that—excuse me, Mr. Congressman—that as a banker, I can tell you that first and foremost what we have to do as a banker is accept these loan documents through a fax machine, and we communicate with our client through a fax machine. And so when you consider the smart technology that is available today, it is important to sort of blow up the fax machines and allow the SBA to be current with—

Mr. LUETKEMEYER. Madam Administrator—

Ms. CONTRERAS-SWEET. Yes?

Mr. LUETKEMEYER. As a banker, I am telling you, asking you, where is the information to back up what you said? I deal in facts. This is a statement that should have facts, studies, something backing up. I am asking you have you got a study that shows how many hours you are going to save. Yes or no, do you have a study?

Ms. CONTRERAS-SWEET. Mr. Chairman, we do have an understanding. We have a very clear understanding that when you cut out paperwork and extra visits—

Mr. LUETKEMEYER. So in other words, you do not have—

Ms. CONTRERAS-SWEET. And then what you do is when you launch a pilot, then you track the metrics and then we will be able to come back and report to you.

Mr. LUETKEMEYER. So we have not tracked the metrics yet?

Ms. CONTRERAS-SWEET. We have not launched the program yet.

Mr. LUETKEMEYER. So you do not know how much you are going to save yet?

Ms. CONTRERAS-SWEET. We will track the metrics.

Mr. LUETKEMEYER. It may cost more hours.

Ms. CONTRERAS-SWEET. Mr. Congressman, I have not seen a program that when you take out steps and steps and take out a lot of paperwork, that it ends up costing more. I just have not seen that in my experience.

Mr. LUETKEMEYER. Madam Administrator, you are talking with somebody who was with the government here. We deal with this every day. Every day our constituents of inundated with more regulations, more work. You take off two regulations, you put on five. It happens all the time. And here you are telling us this is a wonderful program. I hope it works. All I am asking for is documentation that can prove what you just said. And you cannot do it.

Please do not come to this Committee and make statements if you cannot back them up. That is my point. And it is a pretty simple request here. It is made on page two, the bottom of two here. I see my time is up.

Ms. CONTRERAS-SWEET. As an experienced banker, I can assure you it is going to take—it is going to take some savings, and it will be more efficient. And I will be delighted to buy you lunch if that does not happen, Mr. Congressman.

Mr. LUETKEMEYER. Madam Administrator, as a fellow banker, I can tell you this stuff causes he headaches, heartburn, and costs me lots of money because it takes lots and lots of time of my people in my business to adjudicate and work with.

Thank you, Mr. Chairman. I yield back.

Ms. CONTRERAS-SWEET. I am hearing great enthusiasm from our banking partners. Thank you so much for your support.

Chairman GRAVES. Ms. Chu?

Ms. CHU. Administrator Contreras-Sweet, welcome.

Ms. CONTRERAS-SWEET. Thank you.

Ms. CHU. I have questions about the SBA 7(a) Guaranty Loan Program and the 504 Loan Program. I know they both fill critical needs in the market for small businesses that cannot access traditional lending sources. It is important that these loans reach underserved communities and the small business owners that need them the most. So my question has to do with whether the program is reaching its intended target. Can you tell me about the lending demographics of the 7(a) loan portfolios of the lenders, such as the types of loans being administered and what types of communities have been receiving the loans for the past two years?

Ms. CONTRERAS-SWEET. Thank you for that question. I am pleased to say that what we are learning in the loans under \$150,000 are dramatically up. We are seeing that the women loans are up, the African-American loans are up over 100 percent. I believe the women loans were up 35 percent. Every single target population has gone up since we have zeroed out fees on the 7(a) loan on the community advantage loan. So we need to continue to push that because I think that that is where so much of our diversity is looking for capital at the lower end just to start their business and to grow it, but we need to also continue to provide the continued continuum of capital so that is they grow and scale up. They also have the alternative products available to them.

Ms. CHU. And can you submit for the record information on whether any of the top 7(a) lenders have internal loan policies that

restrict who gets a 7(a) loan? For example, do any of these lenders not make loans under a specific size or only make loans available to certain industries?

Ms. CONTRERAS-SWEET. I cannot speak for every financial institution, but clearly different programs, different banks have different programs. We are encouraging all of our banking partners to partake more and more of the SBA, and that is part of the work that I have underway. I am also expanding, as I mentioned earlier, that I think it is also important to continue to engage the credit unions, and I also think that it is important that as we think about the continuum of capital, that we also study and examine what role the SBA can play, if any, in helping direct also those seeking to have more access to capital to the alternative financing channels.

I was interested, for example, yesterday you probably heard that the Apple Company just launched a pay program, Apple Pay. And so all of those, when you see that Square launched a lending program, when you see that Amazon launched a lending program. So all of these have to be studied so that we understand how the SBA plays in that community to make sure that we are complementary to what is taking place in America.

Ms. CHU. And so we could get information such as that?

Ms. CONTRERAS-SWEET. We would be delighted to look into what we can offer you, and we would be delighted to reach out to our financial partners to see what we can get you. That is important data, and we track it internally, and I would be delighted to see what we can share with you just honoring the Privacy Act and all the other things that we have to honor, but I am delighted to share with you the data that we are tracking.

Ms. CHU. Very good.

The SBA 504 Loan Refinancing Program helped many small business owners survive the recession and go on to create more jobs and bolster the economy. However, the program expired in 2012. In the last year of the program, over 2,400 small businesses benefitted from refinancing over \$2.2 billion. I introduced H.R. 1240, the Commercial Real Estate and Economic Development Act (CREED), which would help reauthorize this program. At a time when our economy is still recovering, do you think extending the SBA's 504 Loan Refinancing Program would be beneficial to small business owners?

Ms. CONTRERAS-SWEET. I had some knowledge of when it was first launched the first time, the first go-around, and I can share with you that I thought that it was not left exactly, you know, in a coherent way at least to us in Los Angeles, and so it took a little while for it to take hold and to get started, but once it did I thought it was an important tool, and I would be supportive of a 504 Refi continuance, and I think, in fact, we are hoping that everything will go well and you will see it in our budget soon.

Ms. CHU. Very good.

Ms. CONTRERAS-SWEET. Thank you.

Ms. CHU. You referred a little bit earlier about the goal for women-owned businesses, and I was glad to join you at the ChallengeHER event in Los Angeles to help women-owned businesses get contracts with the federal government. And congratulations on getting the 23 percent contracting goal for small business

met this year. However, the contracting goal for women-owned business is 5 percent, and yet, women only got 4.3 percent of all federal contracts. And that means that they missed out on \$2 billion worth of federal contracts. What can we do to finally get to the 5 percent?

Ms. CONTRERAS-SWEET. You are right to hone in on that challenge. Women represent half of our population, and it was not, you know, the old days where we always had, you know, an alternative as to whether we worked or not. So many of us now are the sole providers for our families, so this is a very important body of work, and I can share with you that we will continue to reach out through all of the channels that the SBA has. Again, through the vast network of Small Business Development Centers to the Women Business Centers. But it is also important that we have an extra tool at every buying activity. When you are there at the ground at the actual buying activity and that buying officer has an important tool that he has for other HUBZone and for our vets, and that is sole-source authority, we are seeking sole-source authority for women as well so that they can be at the same level and be parity with other disadvantaged groups. And I have also tasked the SBA with expediting the way in which we conduct the study to find if women are found to be underserved in more of the NICs codes because we think that if that study proves to be that they are underrepresented in other categories, then that is another tool that the SBA and its officers can use in the field.

Ms. CHU. Thank you. I yield back.

Chairman GRAVES. Mr. Schweikert?

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Madam Administrator, and forgive me because I am harkening back to I think one of my very first hearings sitting on this Committee a couple years ago on the discussion of the adoption of technology for loan management, for loan servicing, for participating lenders' application process. Was it not supposed to come online two years ago? Some of that moving from a proprietary system to sort of more of an open source system? I mean, where are you at right now technology-wise? And why a couple years behind.

Ms. CONTRERAS-SWEET. Yeah. Thank you so much, sir, for that question.

Technology is key in executing what we do when the SBA is interacting with financial institutions that all are deploying some of the smartest systems America has. You recall when—at least when I was growing up—I can speak for myself—you would go into a bank to actually deposit your check so that you can—

Mr. SCHWEIKERT. I have been involved in the technology side of collections, so more just let us do technology talk instead of policy talk.

Ms. CONTRERAS-SWEET. That is what I was referring to.

So in terms of policy, I can share with you—

Mr. SCHWEIKERT. Why the two-year delay.

Ms. CONTRERAS-SWEET. So I can share with you that we feel that technology can help us in many ways be efficient and effective. With respect to the question that you asked—

Mr. SCHWEIKERT. I am desperately trying not to be rude. I understand that is the same discussion we had a couple of years ago. Why the two-year delay in what was supposed to be the rollout?

Ms. CONTRERAS-SWEET. Of the seven tranches of work, they have now been all completed, but what I wanted to share with you, sir, is that at least in my view, as I see it, it is important that we continue to evolve technology. So I would hope that the SBA never sees that their work in technology is complete.

Mr. SCHWEIKERT. Okay. So a quick checklist. So loan servicing and management is now no longer on a proprietary system but on a system that all participating lenders have trackability authority through the web; right?

Ms. CONTRERAS-SWEET. All of the seven subprograms under the LMAS have now all been completed.

Mr. SCHWEIKERT. And so if I am my community bank or credit union, I can now do my loan applications and my filings all through the web now?

Ms. CONTRERAS-SWEET. As soon as we complete the SBA-1, which will be in Q2, then we will be able to, as I was outlining earlier, we will be able to do everything online with respect to the seven—

Mr. SCHWEIKERT. And the two-year delay on that is just, what is it, technical issues? Contracting issues? Security issues? Any idea what drove that?

Ms. CONTRERAS-SWEET. I can tell you that at this point they are all complete, and I can tell you that technology is an ongoing opportunity for us to continue to be efficient.

Mr. SCHWEIKERT. And technology will always be an ongoing opportunity. The two-year delay was because of what?

Ms. CONTRERAS-SWEET. Mr. Congressman, what I can tell you is that we will continue to evolve it, and I hope that technology is never a completed project.

Mr. SCHWEIKERT. If you have one of your staffers here who actually speaks technology, I would love a response actually to that question to be helpful.

There is a conceptual enlightenment because I think this is a great opportunity particularly for minority and underserved populations and everything out there, and even another article from two days ago that one of the earlier executives of Google and others are moving into crowd-based funding, crowd-source lending. It is almost a peer-to-peer type lending, particularly I know our ranking member here has always had an interesting sort of the micro lending world, and many of us have had—how bureaucratic, you know, if you have ever done an SBA loan from walking in the door and been handed the paperwork—

Ms. CONTRERAS-SWEET. Yeah, it takes your breath away.

Mr. SCHWEIKERT. How does the world change for the SBA when I have dozens of peer-to-peer lendings out there now who are doing almost a direct loan environment? Does the SBA—have you looked at the technology? Remember you were just talking about—

Ms. CONTRERAS-SWEET. Sure.

Mr. SCHWEIKERT.—the future and what is happening around us, and the cost of those funds seems to be coming in very competitive.

Ms. CONTRERAS-SWEET. Indeed.

Mr. SCHWEIKERT. As to the lack of staff and bureaucracy and their technological way of doing credit modeling. Has that changed the world of access to capital?

Ms. CONTRERAS-SWEET. I think it does. I absolutely think that these are all very encouraging developments. When I met with Accion, Kiva Zip, Cabbage, PayPal, Square, all of these I think are wonderful developments, and I think it is important for the SBA to examine, as I was referencing earlier, that we examine what proper role we have in understanding which ones are working effectively. Again, track their performance accountability, and then be able to properly counsel small businesses so they can navigate through those strategies.

Mr. SCHWEIKERT. Would there ever become a time if certain categories had very egalitarian access to capital because—I am actually, I have a couple apps now where you can actually, on Crowd Source, loans for your small business right off your phone—that the SBA would say this market now is appropriately served. Our needy populations are receiving; that the SBA will come here to Congress and say, “Job well done. The market found a way to serve this. We are now going to go someplace else.”

Ms. CONTRERAS-SWEET. I think your question is a really important one, and that is why as soon as I arrived at SBA I launched the “Smart, Bold, and Accessible” initiative, because I think it is important for Congress to allow us to be flexible, to allow us to evolve, to make sure that we are addressing the emerging technological advances, not just to provide access to capital but for counseling. We have international opportunities that we can also use technology for, and so I think that these will all present new opportunities for the SBA.

Mr. SCHWEIKERT. And forgive me, Mr. Chairman, for going over the time. It is an area of personal interest.

Thank you, Madam Administrator.

Chairman GRAVES. Ms. Hahn?

Ms. HAHN. Thank you, Mr. Chairman, Ranking Member.

Thank you, Madam Administrator Contreras-Sweet for being here today. I am very pleased that you are in this position. I think that you come to this position at a great time. We are coming out of the recession. Small businesses are becoming successful. They are growing. You and I both grew up in Los Angeles, and I know you were in Los Angeles just recently talking about some of your initiatives. And a lot of my questions have been asked, but I did want to, just a couple of things, one was just to hear you talk a little bit more about what we can do to reach out to our women-owned and minority businesses. I know before the recession, women-owned small businesses were receiving 40 percent of the SBA loans. Now they are receiving just 16 percent. African-American entrepreneurs have gone from receiving 11 percent of the SBA loans to just 2.3 percent. So I do not like that trend, so I would love to hear—I do think some of the changes that you have implemented—not charging the fees for the loans, is going to be valu-

able, and I know you have already seen an impact from that. I am wondering if enough changes have been made or are there other things that we should look at changing? And then I meet with small businesses all the time. It is one of the things that I do.

And by the way, you have some great folks on the ground in Los Angeles. Victor Parker is a star, and he has worked with me on every roundtable I have had. We have done stuff with the Port of Los Angeles, connecting our small businesses with the international trade industry, and he is terrific.

The other complaint that I get from a lot of my small businesses, particularly some of the new startups, not really clear on how they can access small business resources. They are not really sure what the SBA is or does. How do they access them? Is there a better way that we can outreach to our small businesses, particularly the new ones? And what is available? Because listening to you, there is a ton of stuff that is available and innovative and creative that you are really going to be implementing, and how do we get that word out to the businesses? So two things, women, minority-owned businesses, and then could we do a better job of outreach?

Ms. CONTRERAS-SWEET. Thank you. And it is good to see you again, too. Thank you for your support while we were in Los Angeles.

I can share with you that one of the things, and I think it addresses also the earlier question, and that is how do we evolve as an organization to meet the challenges of today's economy? And so to that end, that is why I launched the "Smart, Bold, and Accessible" initiative. We are examining the ways in which we can modernize the Agency to make sure that we are current and relevant in today's technological pace. And so in that regard, we are examining all the smart systems that are currently out there in the private marketplace and to understand how we can complement those systems in SBA. Who are they reaching effectively and who are they not, and where should we be to make sure that we are filling that gap. So that is an important role.

In that regard, Madam Congresswoman, what we did is launched a program that we call VERA VSIP, which is where we offer those who have served the SBA so well, so eloquently, and have helped to create two out of three new jobs that we are finding in America, but some of them are saying it is time for me to return and spend more time with my family. And so in that regard, we are offering some of our employees early retirement. What that will allow us to do is to reexamine how we deploy our personnel to more effectively and strategically respond to today's and tomorrow's challenges. So that is one. How we align our—

Ms. HAHN. You better not redeploy Victor Parker.

Ms. CONTRERAS-SWEET. Well, and to that point, I have traveled now the country and meeting with our district offices, and in each district I hear a story about how special our district offices are, so I am delighted that you had that kind of experience.

The second thing that I wanted to say is for our women, Native-American, African-Americans, Latinos, and women—excuse me, and Asian-Americans, we need to make sure that we are accessible to all, and that is why the SB, and the A stands for accessible. And so again, how do we use technology? How do we outreach to these

communities? How do we make sure that our products are being responsive? Setting our fees at zero for loans under \$150,000 will help and go a long way. Tracking and meeting regularly with the financial institutions, both the private and the public sector, the credit unions who have now again we have reached out to them and they have accepted the challenge of doing more of the small dollar loans, and by that, Ms. Congresswoman, I am speaking to the loans under \$50,000, which is where many women who just want to start their business want to be. And so I am focused on the three initiatives—access to capital through every channel that is available to the SBA. I am committed to making sure that through our vast network, national network of Small Business Development Centers and all of the other partners; that we are reaching out to women to talk to them about the strategies, to make sure that they have a proper plan in place for their optimal success. And the third piece of it is just in general to make sure that we are getting contracting opportunities to women in three avenues. First, with the federal government. The U.S. is the largest procurer in the world. We want to make sure that we meet the goal of 5 percent with women. Second, we want to make sure that we are working to make sure that more women benefit from the private sector supply chain. To that end, the president announced a 15-day pay period. So in 15 days, the federal government pays small businesses. For me, having been in a small business, and having a large corporation hold me up for 90 days, I will tell you, 15 day is sweet music to me. That was an important tool. And so we are challenging the private sector in their supply chain to follow our lead. And the third is how we help small businesses partake of the largest growing market, and that is outside of the U.S.

Ms. HAHN. Thank you.

I yield back.

Chairman GRAVES. Ms. Meng?

Ms. MENG. Thank you, Chairman Graves and Ranking Member Velázquez. And I, too, want to congratulate you, Madam Administrator, and thank you for the tremendous job that you have been doing, and especially in terms of outreach since day one.

A few months ago, we had a field hearing with our Subcommittee with Chairman Richard Hanna of the Subcommittee and our Ranking Member Nydia Velázquez in our district in New York, and talked a lot about the issues that a lot of minority- and women-owned businesses face in terms of accessing capital and lack of outreach. And I do want to thank the SBA members of your team for coming to our district recently to explain the new lending program to a lot of our local community banks, especially the banks that serve minorities. So I just want to emphasize that whatever we can do here in Congress to continue to spread the word and help with outreach I think will continue to be very important.

My question is actually about veterans. I know that the SBA has a Boots to Business pilot program that so far has relied heavily on Internet-based video instruction, and I just wanted to know have you found that to be effective? And what is the rationale for relying on online training modules as opposed to maybe person-to-person?

Ms. CONTRERAS-SWEET. Thank you. I think that is an important question. I cannot tell you how proud I am to know that the

SBA is connected with those who are defending our freedoms and upholding our values. And so it is important that the SBA continue to refine and continue to expand the Boots-to-Business Program. It is largely electronic because we are in all the world installations, and so this works so that first I think while people are still in-service, they are trying to examine what they are going to do next, and many times their first—and appropriately so, their first thought is how do I just get home and be with my family again.

And so you want to just begin to give them some exposure so the first is, you know, a couple hour video and then an eight-hour program, and then we finally launch into the fuller program. And so it is an important, you know, it is important to allow them to ease into the thought, to explore entrepreneurship, but once they are back at home and back in their communities, then we have the full panoply of programs that the SBA offers. Our VBOC centers, the Veterans Business Outreach Centers, the SBCDs, our SCORE partners are out there, and the SCORE partners often go to your place of business to give you personal advice. And so I would hope that once they are back in their community that they can partake in the full panoply of offerings that the SBA community has in the communities.

Ms. MENG. Thank you. I yield back.

Ms. CONTRERAS-SWEET. I should just add one more that I am also really proud of because, you know, I know that you also care about women, and so marketing is becoming increasingly digitized, you know, where you have to make it more and more personal. And so we learn from our women armed forces folk that they are very interested in having their own program. And so we launched a specialized training that we call VWISE, Veterans Women Inspiring the Spirit of Entrepreneurship. And I was in New York to help launch that program, and there was just such a great dynamic to see that taking place. That program was done in partnership with Syracuse University, which also has more services there available for them.

Chairman GRAVES. Ms. Velázquez?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Administrator, in the Small Business Goaling Report released by your agency for the last fiscal year, it shows that the overall small business goal of 23 percent was finally achieved. And some of the members made reference to that. But when you look at the list that is included in your report, I would like to ask if you are aware that Northrup Grumman, Raytheon, and Chevron have been included as small business contracts by some of the agencies. I do not know how. I do not know when they became small businesses, but I am asking you, were you aware that agencies were taking credit toward their small business contracting goal by the fact that they included contracts that were given to larger companies?

Ms. CONTRERAS-SWEET. Yes, Madam Ranking Member.

In reviewing the list, I had a similar question, and when I took a deep dive to understand what the answer was to that important question, what I learned is that we have a rule in place that says that once you get in a contract with government, that you are given five years. And so if a large company acquires a small business,

then it is grandfathered in for a number of years. And so that is one of the instances that we identified.

But I can assure you, and the really important thing is that the SBA has disbarred more companies in the last four years than has happened in the last 10 years combined. So I want to assure you that the program is working and that we are delighted that we have met the goal and that now small businesses are getting their fair share.

Ms. VELÁZQUEZ. So will you make a commitment with this committee that you are going to go back and assess and review every contract that was given to these companies so that you can assure us that they are not in violation of the contracting goals to small businesses and the numbers are not being cooked by some of the agencies?

Ms. CONTRERAS-SWEET. I can share with you that the community has strong policing activities.

Ms. VELAZQUEZ. No, you do not, or maybe now, but administrator, let us be clear, the GAO conducted an investigation, and we held a hearing when that report was released. And what it showed is that many contracts that were intended to go to small businesses were given to large companies, and that is in violation. So I just want to make sure that we do not ask the GAO to go and do another investigation and it is going to show again that the proper oversight within the agency is not in place, and therefore, this kind of situation happens again. That is all I am asking you. Because at the end, those small business contractors that are playing by the rules are the ones losing out.

Ms. CONTRERAS-SWEET. I can share with you that I am keenly committed to making sure that small businesses get their fair share. The president asked me to do three things: run an effective SBA, be a voice for small businesses, and help take them to the next level. In that regard, we want to make sure that they get the 23 percent that they deserve, and I consider that, by the way, a floor, not a ceiling. And so in that regard, we are amping up. We are challenging more. I can tell you that our people are motivated and they come in and they tell me about, you know, what they are doing out there to make sure that they are speaking up and fighting for small businesses. We pass hundreds of thousands of contracts, and so generally, the system is working, and I am proud to say that our team is on it. There are good cops on the beat. And the policing mechanisms that we have in place are working. And as I said, we have disbarred more abusers in the last four years, and the penalties are stiff, and we will continue to convey the message that we are going to have a zero-tolerance policy.

Ms. VELAZQUEZ. Thank you.

Chairman GRAVES. Mr. Collins?

Mr. COLLINS. Thank you, Mr. Chairman.

Thank you for coming in today. I guess my question is whenever I hear about a new program like SBA-1, on the one hand that is good news. The only concern would be in the past—we will use the word “past”—the GAO and the SBA’s inspector general both have, on occasion, found some problems with the SBA’s management of information technology. So now as we are looking at a new program, can you share with us some of your thoughts on how you are

going to make sure that is integrated, is seamless, works well, and motherhood and apple pie?

Ms. CONTRERAS-SWEET. Thank you so much, Mr. Collins.

Again, I think technology can be a very important tool for us, and that is why I launched at the Agency an initiative that I call "Smart, Bold, and Accessible," which really refers—the underpinning really is how we modernize the SBA, and so I think technology investments can be key in helping us become more efficient and effective throughout the system. SBA-1 will be complementary and the good news is that it is adding functionality from an existing contract that we already have, and so we are able to continue to manage all of our programs to make sure that they are seamless, and I am delighted to say that I look forward to coming back and sharing with you how effective the SBA-1 will become. We think that it is going to increase lending in our 7(a), our core lending product, and allow more people to get these loans that otherwise would be sitting on the sidelines.

Mr. COLLINS. So did part of this come from the lenders or from the borrowers where they would say another vehicle like this could be useful? Is this, you know, if I am a small business, am I going to go to SBA-1 to initially apply for a loan, or is it something that I am going to apply to my lender and he is going to use SBA-1?

Ms. CONTRERAS-SWEET. Thank you for that clarifying question. It is a platform that we are setting up for our lending partners, and so we process our loans through our lending partners. So what the client will see is just a much cleaner interface and more important, they will be able to do e-consent. So many times when you are an entrepreneur and you are fighting, you are the CMO and you are the CFO and the CFO and the CEO; you do not always have time to go into the financial institution. So now this will be able to all be done online and we will have the e-signatures, the e-verify that you see on other products in the commercial space, and so they will have a seamless interaction with their financial institution, and that institution will do the same with us through this platform.

Mr. COLLINS. So would the borrower initiate his loan request through SBA1, the borrower?

Ms. CONTRERAS-SWEET. No, I am sorry. I apologize if I did not clarify. It will still be the bank that will initiate the loan, but they will now be able to interact with their borrower on line, and the lender will also be able to interact with the SBA now online.

Mr. COLLINS. So it generates out of the lender, but the small business can be using it as well as the portal of information?

Ms. CONTRERAS-SWEET. Yes. Financial institutions already have largely the e-consent in these tools. The challenge has been that SBA has not been able to interact with the institution online. And now this will facilitate that intermediary role that the bank relies upon. They will now be able to also be online. So most financial institutions have already had this technology. Now the SBA is catching up.

Mr. COLLINS. Well, I am glad to hear you are aware of what we would be asking, which is about how it actually rolls out, and I am confident you will be reporting back very good results. Thank you very much.

Ms. CONTRERAS-SWEET. I look forward to it, sir.

Mr. COLLINS. I yield back, Mr. Chairman.

Chairman GRAVES. I just have one quick request. Back in March, we sent a letter to the SBA. We were asking for about 145 separate requests on information concerning the process by which the SBA reviews franchise agreements, and at that time the Agency said that they needed to address some concerns or some issues that they had raised in the letter, and so I agreed to delay that, the compliance with that. And so that was about six months. I am just curious when we can expect some answers or some revisions.

Ms. CONTRERAS-SWEET. Thank you again for that question, Mr. Chairman.

The franchising opportunities are vast and complex. And I can tell you that at first blush, I think the notion of a plug-and-play company is really attractive. You know, for small businesses, when we go out to launch a business, first you have to think about how you are going to lay out your plan, how you are going to brand it, how you are going to create a niche market, how you build barriers to entry, how you attract customers, your marketing initiatives. And so when you contemplate a franchise, it is really a wonderful tool that you can come in with a branded name, you can come in with an institution that already has addressed the branding question and has mentoring in place. So these are very attractive programs for the small business person. So I am very interested in this. I have met with the association to understand where they are headed and reviewed with our general counsel and our capital access and our partners to understand exactly what the opportunities are. And I can share with you that we are clarifying these more and more. We are staffing it up because I think this is an important alternative, and we will be sure to get you those answers that you asked in the letter that we reviewed. Thank you.

Chairman GRAVES. Soon, I hope.

Ms. CONTRERAS-SWEET. Yes, of course, sir.

Chairman GRAVES. Any other questions?

With that, we are honored to have you testify before the hearing, and we look forward to—I think the whole Committee looks forward to working with you in the future on issues, obviously, that you are facing, and we feel that the country is facing when it comes to small businesses.

And with that, I would ask unanimous consent that all members have five legislative days to submit statements and supporting materials for the record. And without objection—

Ms. CONTRERAS-SWEET. Mr. Chairman, if I may, I do not know if I will have another opportunity to come before you again, and so I just wanted to publicly acknowledge your leadership and thank you so much for your stalwart effort in leading the Small Business Committee. You know small businesses are creating so much of the economic activity in this country, and your leadership is well recognized and appreciated. Thank you so much, sir.

Chairman GRAVES. Thank you very much. I appreciate that. And this is my second to last hearing. There will be one more.

With that, this hearing is adjourned. Thanks.

[Whereupon, at 2:12 p.m., the Committee was adjourned.]

A P P E N D I X

U.S. Small Business Administration

Washington, D.C. 20416

TESTIMONY of

MARIA CONTRERAS-SWEET

Administrator, U.S. Small Business Administration

House Committee on Small Business

Small Business Administration: Management & Outlook

September 10, 2014

Chairman Graves, Ranking Member Velazquez and distinguished members of this committee, thank you for this opportunity. Since being confirmed I have taken time to sit with many of you, and I know the members of this committee not only share my passion to promote entrepreneurship but have been actively engaged in supporting our nation's small businesses. In my meetings with the Chairman and Ranking Member I have seen firsthand the bipartisan commitment of this committee, working together to help small businesses.

I look forward to continuing this work to help these job creators in our economy realize their potential and put Americans back to work. At the SBA we remain focused on our core mission of facilitating access to capital, counseling, contracts, and disaster assistance.

When meeting with our lenders, clients, and borrowers I understand their concerns because I have been in their shoes as an entrepreneur, five years as California's chief bank regulator, and then starting a community bank. This guides my belief that the SBA can help more businesses create jobs. I have also learned the significant work that happens in this Committee, and the importance of working with you to make our programs better and the agency more efficient.

SBA's capital is infusing dollars into local markets and improving our economy. Small businesses inject capital into the economy more quickly as they cover payroll, buy equipment, and acquire local real estate. This is good for Made in America, Grown in America, and Invented in America.

In the 21st century, the SBA must be as innovative as the small businesses we serve. I want SBA to represent Smart, Bold and Accessible. This means we're implementing smart systems, so our agency keeps pace with technological advances that change how Americans conduct their business. Championing bold initiatives to open new business channels for entrepreneurs within the federal government, corporate supply chains, and international commerce. And making our services accessible to small business owners, regardless of their gender, race, age, or neighborhood.

From my first conversations with Chairman Graves and many of you, we see the prevailing challenge SBA faces is that our loan documentation is complex and labor-intensive, forcing banks to hire specialized staff, contract it out, or walk away from the loans.

We cannot afford to lose these partners and turn job creators away. To combat this we launched a predictive business credit scoring model the SBA has been developing for more than a decade—combining an entrepreneur's personal and business credit scores. This new scoring model is now available to ALL of our lending partners for loans of \$350,000 or less. Making it easier and less time-consuming for banks to do business with us—and for entrepreneurs to do business with them.

Strong stewardship of our flagship 7a program has allowed us to keep fees at zero on loans less than \$150,000 and continue to operate at zero subsidy and we move closer to zero subsidy with the 504 program.

Next year we will roll out SBA One an interactive user-friendly platform. It will automate the uploading of documents and generation of forms, and allow for electronic signatures. On each 7A loan SBA One will save banks hours of processing time and money. The combination of predictive credit scoring and SBA One will incent more banks to partner with us to promote underserved lending, generating more loans and igniting economic activity.

Being bold means opening new markets—both here and abroad. Over the next decade new markets around the world are going to open up, but only 1 percent of small businesses are selling to them. We're focused on ensuring small businesses have the financing they need to engage internationally.

I'm pleased to announce for the first time in eight years—the federal government met the 23 percent goal of federal contracting to small businesses in FY13. This was an important achievement, but we fell short of our women-owned business goal and must do more to meet that goal.

The accessible component of the new SBA is close to my heart, as the face of entrepreneurship is changing in America. More of those faces today belong to women, Latinos, African-Americans, Asian Americans, Native Americans, veterans and seniors. In addition to promoting smaller-dollar loans, we are focusing on building referral networks with microlenders so new businesses can get the start-up capital. At the SBA our team is working to find new and creative ways to put micro capital into the hands of entrepreneurs. Ranking Member Velazquez and I have seen too many entre-

preneurs with great ideas and products default because of poor financial planning. We look forward to working with her and all of you to increase technical assistance to small businesses.

Our guarantees allow lenders to make loans they otherwise would not. We fill market gaps. Every dollar we inject into the economy is capital that could potentially stay on the sidelines.

Again, I want to thank all of you for your bipartisan commitment to small businesses, and how welcoming you and the entire small business community has been to me.

With that Mr. Chairman, I would be happy to take your questions.

Questions for the Record
Chairman Sam Graves

Question 1

According to SBA officials, the agency was to migrate its loan management accounting system from a proprietary system by January 1, 2012. When can we expect the SBA to complete this first step in modernizing its loan management accounting system?

Response: *All of the originally planned LMAS Incremental Improvement Projects (IIPs) were successfully completed; however, there has been some additional follow-up required by OIG and Independent Verification and Validation (IV&V) guidance.*

Additionally, SBA initiated a project to migrate the non-proprietary code to production in a new consolidated data center and complete the shutdown of the proprietary system. The following items have been completed:

- Migration of user interfaces off of proprietary COBOL to a web environment. No lending partners or SBA personnel handle any loan transactions via a COBOL system.*
- Migration of loan management accounting system code from a proprietary system environment to a generic platform and software in June 2013.*
- Awarding of contracts for hosting facilities and hardware to support Production Operations of the generic loan management accounting system.*

All of this modernization occurred during record-breaking loan production years and without any material weaknesses in SBA's Financial Audit.

Status of the original LMAS Incremental Improvement Projects from SBA's OIG's report on September 30, 2014:

I – Complete the R12 Upgrade	Upgrade SBA’s administrative accounting and management system to Oracle Financials.	Completed in 2011.
II – Migrate Denver Finance from Sybase to Oracle	To migrate SBA’s legacy databases at its Denver office to its current database infrastructure.	Completed in 2013.
III – Migration of user interfaces	To migrate all user interface components from the legacy mainframe platform to SBA’s current web-based infrastructure.	Completed in 2013 except for SBIC transactions, completed for July, 2014.
IV – COBOL Port	Convert the Unisys proprietary COBOL code to a version of COBOL compatible with UNIX.	Completed in 2013.
V – Document Loan Accounting	Document the new processes in order to capture and transfer knowledge about the new LMAS environment.	Completed in June, 2014.
VI – Root Cause Analysis	Analyze remaining issues and develop plans to prioritize additional projects to address SBA’s most important business needs.	Analysis fully completed in 2014. Component projects remain to be implemented.
VII – Implement Improvements	Implement the improvements identified by the root cause analysis and the analysis of new processes.	Three projects were undertaken: (1) Funds Control was partially completed in 2014. (2) Document the Loan Accounting Environment was completed in 2014. (3) ETRAN infrastructure upgrade has been approved.

Question 2

In determining the priorities for the agency, where do you put implementation of directives from Congress signed into law by the President in comparison to initiatives developed by SBA personnel?

Response: *SBA's core mission is to aid, counsel, assist and protect the interests of small business in America. Through the Small Business Act, Small Business Investment Act and other acts, there are statutorily mandated programs that the agency is responsible for implementing to carry out its mission. SBA also has statutory authority to establish and manage other initiatives to assist small business, including underserved communities and businesses. The SBA handles all of its programs with equal priority in management and oversight. We effectively execute on these programs daily and report their results annually to Congress.*

Question 3

The SBA waives the upfront fee for loans under \$150,000. Under what legal authority does the SBA waive the upfront fee since the statute provides that the "Administration shall collect a guarantee fee"?

Response: *Section 7(a)(18) of the Small Business Act, 15 U.S.C. 636(a)(18) provides the authority for the fee relief. This section of the statute sets a ceiling on the guarantee fee but no floor, which means SBA has some discretion in determining how low, including zero, that fee can be as long as it does not exceed the amount stated in 7(a)(18)(A).*

Question 4

As you know, the Anti-Deficiency Act prohibits federal employees from agreeing to arrangements that exceed appropriated funds. Some SBA loans, secured by property, include covenants that may create undefined liabilities in the future for the government and thus might violate the Anti-Deficiency Act. What actions is the SBA taking to resolve these concerns?

Response: *Open-ended indemnification clauses in real estate title documents applicable to 504 project real estate collateral may create a violation of the Anti-Deficiency Act (ADA) if SBA were to take title to the property (during a foreclosure action). Certified Development Company (CDC) closing counsel and SBA District Counsel currently review real estate title documents prior to closing and identify such clauses. When identified, the CDC works to obtain a waiver of the clause as applicable to SBA, which ensures Agency compliance with ADA requirements.*

Since indemnification clause waiver(s) cannot always be obtained, SBA has established a procedure that ensures compliance with legal requirements while reducing closing delays. The procedure provides that if a waiver cannot be obtained, those projects will be tracked for further consideration after debenture purchase.

We understand a legislative solution might be created to better address the issue.

Question 5

Given the fact that the federal government has not met statutory goals for providing small businesses with subcontracting opportunities, should not the SBA reallocate some resources from its own entrepreneurial development initiatives to the hiring and training of commercial marketing representatives?

Response: *In FY14, SBA conducted approximately 1,300 subcontracting plan compliance or orientation reviews of large prime contractors. These reviews encourage large prime contractors to use small business subcontractors. In FY13, the federal government achieved 34% in subcontracting awards of its 36% goal, which was an improvement over FY12's 33.6% achievement. The subcontracting achievements for FY14 will be released with SBA's annual scorecard later in FY15. We believe our entrepreneurial development initiatives play an essential role in helping small businesses grow and create jobs. These efforts include a wide range of assistance services including contracting. Additional resources for CMRs and PCRs is one path to providing opportunity for more coverage, and SBA has requested and supported that in past budgets.*

Question 6

Do you think that the SBA budget for FY 2015, which requested \$39 million for new entrepreneurial development initiatives but only \$5.8 million for lender oversight of a loan portfolio in excess of \$100 billion, constitutes an appropriate allocation of agency resources?

Response: *SBA's FY 2015 Congressional Budget Justification (CBJ) request for the Office of Credit Risk Management (OCRM) is \$13,992,000 (Table 3, p. 18). This amount does not include salaries and benefits for the employees who perform the oversight function. The \$5,827,000 amount you reference is listed as "Lender Oversight—7(a) Loans" along with a \$1,825,000 amount listed as "Lender Oversight—504 Loans" (for a total of \$7,652,000) in the FY 2015 CBJ, Table 10, p. 26. Table 10 reflects an allocation of the costs of SBA programs based on a cost allocation study conducted in FY 2013. The FY 2013 study did not fully allocate all of the lender oversight costs, such as contracts, to the oversight program. Some of the costs were allocated to the Office of Capital Access. This resulted in the discrepancy between the Table 3 and the Table 10 amounts. In FY 2014, SBA revised the cost allocation survey to fully reflect the OCRM costs under Lender Oversight. Those revised figures will appear in the FY 2016 CBJ tables.*

Question 7

To follow up on the concerns of my colleagues, since the answer was not provided during the hearing, do you have a study to show how many hours the proposed SBA One would save? Additionally, as required under federal statute and OMB guidance, can you provide the business case analysis for that project?

Response: *There was a BCAA conducted for SBAOne when the idea was first developed and the report demonstrated there would be significant financial savings as a result of its implementation. The BCAA is attached.*

Question 8

How many staff are working solely on SBIC issues?

Response: 69 full-time employees and 1 part-time employee who is retiring in November 2014 are working solely on SBIC program issues.

Question 9

How many are working solely on issues other than SBICs (please identify both the issues and the titles of the staff)?

Response: 5 full-time employees are working on solely SBIR/STTR program issues. The titles are:

- (1) Assistant Administrator, Office of Innovation Technology
- (2) Technology Policy Analyst
- (3) Program Analyst
- (4) Program Analyst
- (5) Entrepreneur in Resident/Consultant.

Question 10

How many are working on both SBIC and other issues (please provide an estimate of resource allocation to each)?

Response: 6 full-time employees work on SBIC, SBIR/STTR, and Innovation programs. The titles and estimated allocation for FY 2014 are:

- (1) Associate Administrator - 40% SBIC, 40% SBIR/STTR, 20% Other (e.g. Innovation);
- (2) Deputy Associate Administrator - 40% SBIC, 40% SBIR/STTR, 20% Other (e.g. Innovation);
- (3) Special Advisor - 30% SBIC, 30% SBIR/STTR, 40% Other (e.g. Innovation);
- (4) Business Operations Officer - 70% SBIC, 20% SBIR/STTR, 10% Other (e.g. Innovation);
- (5) Program Analyst - 80% SBIC, 20% SBIR/STTR
- (6) Program Assistant - 80% SBIC, 20% SBIR/STTR

Question 11

What is the travel budget allocated to the Director of Program Development for minority outreach, women's outreach, veteran's outreach, and outreach to underserved and low income areas?

Response: The FY2014 travel budget for the Office of Innovation and Investment was \$225,000. Of this amount, \$11,000 was spent by the Program Development team in FY 2014 to do outreach for minority, women's, veterans' and underserved and low income areas. The Associate Administrator and the Deputy Administrator also engage in outreach to these communities at various meetings and conferences. Therefore, the amount spent on travel related to such outreach is actually greater than \$11,000.

Question 12

Concerning the travel history and travel expenditures for the Associate Administrator for the Office of Investment and Innovation, please identify which travel expenditures were solely in support and oversight of the SBIC program and which were for the support of other programs. Please identify the other programs and the related amounts.

Response: *The Associate Administrator promotes all of the programs managed by the Office Innovation and Investment at meetings and conferences. During FY 2014, \$18,000 of the OII travel budget was spent for his travel discussing and supporting the SBIC, SBIR/STTR and Innovation programs.*

Question 13

Regarding the travel history and travel expenditures for the Deputy Associate Administrator for the Office of Investment and Innovation, please identify which travel expenditures were solely in support and oversight of the SBIC program and which were for the support of other programs. Please identify the other programs and how much time and money was spent supporting them.

Response: *During FY 2014, \$11,000 was spent for the Deputy Associate Administrator's travel discussing and supporting the SBIC, SBIR/STTR and Innovation programs. There is no sub allocation in the travel budget by program or initiative.*

Question 14

Please explain the SBA's view as to why the licensing process has significantly slowed down and why the number of new funds entering the SBIC licensing process has significantly diminished.

Response: *The licensing process has not slowed down. The average processing time is 7 months which is generally consistent with the prior years' time. The licensing process depends on many factors. One of the major driving factors, which is controlled by the applicant and not SBA, is the amount of time it takes the applicant to provide all of the final legal, partnerships, and other core documents to the SBA. Since we do not "stop the clock" while waiting for documentation from an applicant, that lag time is reflected in the estimated 7 months processing time. Thirty new SBICs were approved and licensed in FY 2014. This is also consistent with the prior year's approvals.*

Question 15

Given that the licensing Standard Operating Procedure was last updated in the 1980's and this Committee was promised over a year ago that this would be updated, when will the licensing procedure be updated?

Response: *The new licensing SOP was updated and made effective on August 6, 2014.*

Question 16

The SBA issued a proposed rule on SBIC investments in 2013 and received only one comment letter from industry. Why is it taking so long to issue the final rule and when will the final rule be issued?

Response: *The final rule was published in the Federal Register on October 21, 2014. The 2013 proposed rule was related to expanding passive investment exceptions in the SBIC regulations. Though there was only one comment letter, it identified several areas where SBICs could benefit from further expansions for passive investment structures. In addition, the letter identified the use of passive invest-*

ment structures in ways not intended by the proposed rule. SBA took time to carefully consider the expansions suggested by the commenter and also to consider any associated increase to program credit risk.

Question for the Record

Rep. Steve Chabot (OH-5)

Question 1

The Administration has previously been supportive of raising this limit. Does the Administration still support raising the family of funds limit? And will you work with me to help pass an increase?

Response: *The SBA is supportive of the family of funds increase legislation which would increase the amount of leverage by licensees under common control from \$225 million to \$350 million. The family of fund increase, with the increase in SBIC's authority to \$4 billion, will well position the Agency to ensure that high-growth small businesses across the country have access to the capital they need to build their companies, drive innovation and help grow the economy.*

Question for the Record

Rep. Mick Mulvaney (SC-5)

Question 1

Last Congress, I sponsored the Subcontracting Transparency and Reliability Act, which was passed out of this Committee and included in the final version of the FY13 NDAA. This language made it easier to crack down on deceptive large businesses hiding behind small businesses, and simultaneously made it easier for small businesses to team with other small businesses to compete for federal contracts. Unfortunately, these changes have not been implemented. I understand that during a subcommittee hearing in July, we received testimony from small businesses about how the failure of SBA to act means that they are losing money and contracts. When is SBA going to act?

Response: *The proposed rule is currently in the interagency review stage of the rulemaking process and will be published for public comment in the near future.*