FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2008

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FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2008

Thursday, February 8, 2007

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

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

Present: Representatives Velázquez, Jefferson, Shuler, González, Larsen, Bean, Cuellar, Moore, Altmire, Braley, Clarke, Ellsworth, Johnson, Sestak, Chabot, Graves, Musgrave, Fortenberry, Gohmert, Heller, Davis, Fallin, Buchanan, Jordan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning. I call this hearing to order. I want to thank Administrator Preston for being here today. While this is only his first appearing before this Committee, it is clear that with his almost 25 years of experience in financial and operational leadership positions he is dedicated to serving the small business community. I appreciate Administrator Preston's openness and thoughtfulness and I look forward to work with him on behalf of entrepreneurs in this country.

Today we will review the FY 08 budget for the Small Business Administration. This request continues a trend that has seen a systematic decline in this critical program that helps entrepreneurs. Over the past six years the Bush Administration has continually made cuts to the agency. This year the cuts might be different but the results are the same.

We hear time and time again how small businesses are the drivers of the economy and create the majority of jobs. However, under this budget no program receives a substantial increase leaving small businesses without the resources they need to succeed.

What I am so pleased to see the enthusiasm Administrator Preston has for working on behalf of our nation's entrepreneurs it also takes adequate funding to run these programs. Of SBA's core programs 75 percent of these are cut, terminated, or flat-funded. One example of this is the Women's Business Center. The Administration plans to eliminate funding for at least seven Women's Business Centers. With the face of business changing cutting the one

program whose sole goal is to help the fastest growing sector of the small business community makes no sense.

In addition, Microloan, one of the only programs that provides small loans to low-income communities will now be self financed forcing start-up businesses to pay thousands of dollars more. These changes are completely contrary to fostering a successful business model for these entrepreneurs. At a time when we need to be showing small businesses that we are committed to their growth and expansion, the Administration continues to treat small businesses as an afterthought.

Year after year we see more and more programs for entrepreneurs getting cut and under-funded. This budget request is no different. When you compare SBA's core budget request to overall federal spending, it is the lowest it has ever been during the Bush Administration. These are all valuable programs that have contributed to some of the greatest entrepreneurial success stories in the country. They have opened the door for so many small business owners to pursue and achieve their dream of running a business.

What is most concerning is that the Administration is acutely aware of the problems and yet still proposes insufficient funding. The reality is that if you do not supply more resources you simply cannot effectively run these programs. This is why we have seen 9/11 loans used for the wrong purpose, the problems during Katrina, and an agency unable to detect fraud in the loan programs.

To correct this only one percent of the budget is dedicated to address these challenges. That is short-sighted and would allow this problem to persist. It is clear that since 2001 there has been a failure to provide the resources needed at the SBA. For that reason it has been frustrating to continue to hear how things are getting better for entrepreneurs.

What we have before us does nothing to reverse the shortcomings of previous year's budgets and is just more of the same. We need to provide proper funding for SBA core programs so they not only run efficiently but expand and help even more small business owners. This nation's 26 million entrepreneurs cannot succeed in this economy alone.

I look forward to working with Mr. Preston and Mr. Chabot to ensure that the SBA has the funding it needs in the future. If we want to invest in small businesses and boost our economy, then we have to do more than what is being proposed today.

Now I would recognize the ranking Republican Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you, Madam Chairwoman. Thank you for holding this important hearing today. I want to welcome SBA Administrator Steve Preston to our hearing. While he is not brand new to the job this is his first time appearing before this Committee so we welcome you, Mr. Administrator.

At the heart of the President's spending plan is the goal of balancing the budget in five years, I would hope in less than five years. This is an ambitious and necessary goal that will require Congress to make some tough spending decisions and to act in a

more fiscally responsible way than it has been acting sometimes over the years.

I believe such spending discipline is long overdue. Keeping that in mind, it is important to ensure that the Small Business Administration has the tools it needs to fulfill it's mission to help small businesses, the backbone of our nation's economy to prosper. Small businesses are the primary job creators in our economy creating 60 to 80 percent of America's new jobs annually over the last decade. They need access to capital to succeed.

They also need to have a seat at the table when Government is handing out contracts and they deserve to be given just consideration when a federal agency proposes rules and regulations that could adverse affect them. I look forward to working with Chairwoman Velázquez on these critical issues.

This hearing is about the SBA's budget request for Fiscal Year 2008 but it is important to point out that the President's budget request for small business is more than just the SBA. The President has proposed making the 2001 tax cuts permanent including the repeal of the estate or death tax which its small businesses transitioning their business from one generation to the next particularly hard.

The President's individual rate reduction is also very important to small business because over 85 percent of small businesses pay their taxes on an individual basis as opposed to filing corporate tax returns. These tax cuts returned on average $3,641 to the typical small business owner in 2006 last year. The President's budget request proposes realistic funding levels and it would strengthen budget authority levels for the primary SBA financing programs.

The budget request proposes to cut fees, hire more procurement center representatives to help more small businesses obtain federal contracts and increase services to veterans. It is also important to highlight what the budget does not do. The request does not repeat many of the mistakes of previous budget requests. It does not call for elimination of the Microloan Program.

It does not call for higher interest rates charged to disaster loan borrowers. It does not call for charging higher fees in SBA's financing program to cover administrative expenses. It does not call for charging small business development center clients counseling fees.

With that said, not everything in the SBA fiscal year '08 budget request is perfect. I believe that many of the entrepreneurial development programs at the SBA should have received at least an inflationary increase. If the SBA can receive more than an inflationary increase to pay for higher staff salary cost and rent, I believe that small business development centers and women business centers also deserve a similar increase because they face identical pressures.

I know we all look for ward to working with the Administrator, the Chairwoman, and the Budget Committee and the Appropriations Committee to see what can be done in these areas and I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

Mr. Preston, you are welcome to start your testimony.

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

Mr. PRESTON. Thank you, Chairwoman Velázquez. Thank you for your openness with me and my staff, for your commitment to small business, and to the agency. I really do appreciate your support and look forward to working closely with you and your team.

Ranking Member Chabot, thank you also for your support. We have spent less time together given your newness here in the role but we value that time. We appreciate your support and thank you for your comments.

Chairwoman Velázquez, Ranking Member Chabot, members of the Committee, thank you also for inviting me here today to discuss the Small Business Administration Fiscal Year 2008 Budget Request. For those who I have not had the pleasure of meeting, I am Steve Preston. I have been on the job almost seven months. I along with our new Deputy Administrator Jovita Carranza who is behind me here who joined in December, we both look forward to working closely with this Committee on issues that support the backbone of America's economy, small businesses.

The importance of small business to our country is clear. There have been more than seven million new jobs created in this country over the past three years, just over the past three years, more than all other industrialized nations combined helping to reduce our unemployment rate to 4.5 percent which is below the average rates of the last four decades.

Two-thirds of those new jobs were created by small business. Small businesses drive innovation. That keeps our country competitive. They provide opportunity to millions of Americans who may not find it elsewhere, and they enable transformation in communities in our country that desperately need economic revitalization.

The SBA's 2008 budget request reflects the continued commitment we have to America's small businesses and the vital role they play in our economy and in our society. Enactment of this request will enable us to continue serving the small business community while being a good steward of taxpayer dollars.

Since joining the SBA I have spent a significant amount of time listening to employees, partners, and, most importantly, customers. I have reviewed many of the agency's programs in order to identify how to build on our success and to address the areas that need improvement.

When I came to the agency many of our critical positions were vacant. I continued to work to build a team of competent leaders and managers which will be essential in addressing our challenges going forward. One area of great progress the agency faces right now is the Disaster Assistance Program.

I think we will be talking to this Committee about that next week in a separate hearing and I look forward to sharing some of the great successes we have had there which have been very much based in operational initiatives that we have undertaken in that. It has significantly increased the amount of money in people's hands in the Gulf, significantly improved our responsiveness to the customers.

We are applying the same kind of operational reforms that we had in that business to other areas of the agency. That is grounded

in the belief that we can improve the effectiveness and the impact of SBA's programs and activities markedly and, therefore, our impact on small business by employing important management principles, by focusing on the needs of our customers, by driving outcomes that are important to our country, and by running a compliant, efficient, and transparent organization.

In addition, it is critical that we understand any service organization's success is based on the quality and motivation of its work force. These are principles that we have used to guide us in our plans for the future and in this budget request. It reflects both a vision for the agency's new leadership team and the dedication to the fiscal responsibility the agency has demonstrated over the past five years.

It will also allow us to build the agency's success and provide us resources to make much needed improvements. We are requesting $464 million in new budget authority. This is a 5 percent increase above the enacted 2006 level excluding disaster and Congressional initiatives. We also request $329 million in carryover balances to fund disaster assistance, funds SBA has on hand already from the $1.7 billion in supplemental funding we received in 2006.

Finally, it includes $21 million in reimbursements for e-gov, business gateway, STB certification, as well as lender oversight. This totals $814 million in overall budget authority. This budget will enable SBA to carry out its core functions and begin a number of reforms and improvements.

These resources will support a total of $28 billion in small business financing through the 7(a)/504 and SBIC debenture programs. For 7(a) SBA request $17.5 billion in lending authority. We also request $7.5 for the 504 program. Furthermore, SBA request an SBIC venture capital debenture program level of $3 billion.

Because of the strength of our loan portfolios I am also pleased to request fee decreases for 7(a)/504 loans and SBIC debentures. In this budget 7(a) annual fees go down 5.6 basis points from 55 to 49.4. The 50 basis point up-front fee in our 504 program would be completely eliminated and the annual fee would increase very, very slightly, .3 basis points, which is really pennies a day on a typical loan. The SBIC debenture annual fee would decrease 18.9 basis points.In addition, the budget support to disaster volume of $1.064 billion dollars is supported once again by carryover from our current disaster funds.

For counseling and training to small business through SBA's network of resource partners we request $87.1 billion for SBDCs, $11.8 for Women's Business Centers, and $4.9 for SCORE. In terms of our work force our budget request will support and increase 2,123 FTEs. That is 86 new positions which would be added in '07 and '08.

These additional resources are in part replacements for attrition at the agency in recent years, but they will also support a number of initiatives. Among other things, stronger loan processing, lender oversight, greater support of small businesses in our Government contracting operations, better employee training and career support, and a much greater focus on automation and outreach.

We have become a growing manager of financial resources. Our portfolio has increased 56 percent over the past five years and we

now have over $78 billion to oversee. To meet that responsibility our budget request includes funding for human capital and information technology.

We have already made important advances in this area, specifically in the risk management area. We have expanded loan and lender monitoring systems. We have instituted lender monitoring system that incorporates credit performance metrics for our portfolio. Credit information combined with the SBA lender's current historic performance allows us to assign risk ratings to lenders and play quantitative risk-based methods to evaluation. It dramatically improves our sophistication as an oversight agency.

Through our lender portal lenders now have access to the risk ratings and performance metrics through that portal. That makes it transparent to them to see how they are rated, how they compare to their peers, and how they can get on with the job of improving if they need to.

We have also initiated and planned specific funding requests regarding the loan portfolio and investment portfolio which include a $4.1 million investment in the loan operation system upgrade. That would allow us to proceed with implementation of a system to replace our current loan information system for both regular loans and disaster loans. It is a very significant undertaking and it would take us along a path to get that completed by 2012.

We have also asked for $1.5 million to support our SBIC operation to support evaluation contracts, liquidation planning, and examination of those contracts. As many of you realize, that program historically is sitting on a large portfolio of investments that need to be liquidated and that would help us extract the greatest value out of those.

Government contracting, federal contract dollars are projected to increase by 64 percent over 2001 to small business. As I mentioned before, the small business share is expected to increase to a total of $84 billion. Our responsibility is to ensure that small businesses have fair access to procurement opportunities.

As I have told people before, it is not just an issue of fairness. It is a matter of competitiveness and good business. Small businesses perform well as suppliers of goods and services. Their size makes them flexible, makes them innovative, and often cheaper than large companies. It does, however, take a bit more effort to find the right small business to fit the bill so we are asking for an additional $500,000 to look at how best to serve 8(a), Hub Zones, small disadvantaged business communities, as well as women and veterans.

The agency must improve the management of these programs, particularly the 8(a) program, and these resources will allow us to assess what business process re-engineering needs to be done either through staff alignment or training or technology improvements. We want to make it easier for small businesses to find contracts so they can bid on them successfully. We want to make it easier for federal contracting officers to find the right small business for their contracts.

We are also proposing adding nine new procurement center representatives in '07 and '08 that would expand the base by 16 percent. These new PCRs would help build our presence in the federal

marketplace. In addition, we are looking at how they spend their time and working with them to spend more of their time specifically with contracting officers to make them more effective.

Finally, we are also working to reform contracting goaling and reporting. We recognize that there have been errors in the FPDS-NG system. Congresswoman Velázquez, your staff has been very focused on these issues. We appreciate that focus and thank you for your support. We in corporation with the Office of Federal Procurement Policy are redoubling our efforts to ensure that federal agencies provide accurate data on small business procurements and we have developed a score card for rating their agency compliance in corporation with their mandates.

We are also looking for $500,000 to expand our veterans outreach. With the nation's current engagement in Iraq and its presence in Afghanistan the number of vets returning from active duty will continue to increase. Our Office of Veteran's Business Development plans to increase its efforts to educate, to provide programs and services to veterans and active duty personnel in three main areas, access to capital, management and technical assistance, and procurement programs.

Even though we have made tremendous progress in disaster, we are committed to lasting reforms that are geared toward future disasters. We continue to refine our progress in doing so. In order to compliment the re-engineered process that we have already completed we have implemented a number of productivity and other metrics to track application status and the performance of our employees. It also provides management with critical information to identify problem areas and implement timely corrective actions.

We are developing organizational planning measures to improve SBA's disaster response and these include the development of models to rapidly forecast loan volume, resource requirements to better position the agency to respond to larger scale disasters. We are also nearly the completion of a protocol to leverage our field network as well to improve local coordination.

We expect to implement an Internet based electronic loan application that would allow our borrowers to submit required information quickly and accurately. That would accelerate SBA's ability to determine loan eligibility. It also compliments our investment in the computer system already which has increased our capacity four fold over the last year.

We have also been evaluating options to access the private sector either through specific products or resources to help us handle catastrophic disasters.

Finally, one of my highest priorities as an administrator is to improve the work being done to reach under-served markets in our country. In areas where we see high unemployment and lower wage rates like many of the rural and inter-city areas of our country providing effective support to new and growing small businesses can provide much needed jobs, economic activity and rejuvenation to places in our country that need it most.

In order to reach these markets SBA has included the following proposals in our budget: broadening lender and counselor participation in the community express pilot so we can expand this program which reaches into many of our under-served markets and provides

borrowers with a double benefit of capital and training; expanding the urban entrepreneur partnership to additional cities so aspiring urban small business owners have better access to capital and services that make them successful; establishing seven more alternative work sites which will allow the agency to make itself more accessible to rural small businesses; and expanding the reach of our Microloan Program by moving the program to zero subsidy.

In 2006 it cost 85 cents for each dollar loaned to a Microloan intermediary. In 2006 $13 million was spent to provide technical assistance to somewhat over 2,500 micro borrowers. At the same time there are approximately 13,000 counselors we already have through our various ED partners. We also have 68 district offices. Together they provide services to a million and a half small businesses a year.

Our aim is to meet more micro borrowers through expanded capital and support them with our extensive training and development network on a zero subsidy basis.

As I said before, I believe this is a sound budget. It gives the SBA the funds necessary to operate and oversee our core financial programs more effectively, to re-engineer and improve our Government contracting programs, and to continue our work with our counseling and our training partners. It will enable us to provide more effective outreach, be easier for our customers and partners to work with through better automation, and fill key staff positions in areas where we are clearly lacking the necessary manpower.

Thank you for your consideration and I look forward to answering any questions you might have.

[The statement of Mr. Preston may be found on page 46 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Administrator.

Mr. CHABOT. Madam Chair, can I ask unanimous consent if the members on both sides want to present written opening statements they could do so.

Chairwoman VELÁZQUEZ. Without objection.

Mr. CHABOT. Thank you very much.

Chairwoman VELÁZQUEZ. And I would like to announce that members will have five minutes to ask their questions. We are going to try to keep this to the limit since we want to give participation to every member who is here. But I will give latitude since we have only one witness here.

Mr. Preston, thank you so much for your testimony. My first question is you stated that this is a very different budget than what you have seen in recent years, but you are proposing a budget for SBA that constitutes the smallest percentage of the overall federal budget under President Bush. The SBA budget proposed to cut or flat-fund 17 or 25 core programs. This is exactly the type of budget submission we have come to expect. How is this budget different from previous budgets?

Mr. PRESTON. I think from a number of perspectives. I think, first of all, we are asking for a very important expansion of people in our agency and this would add 86 people from '06 through the end of '08. Those people will be focused on very important activities to the agency. Specifically better staffing in our loan processing centers and for lender oversight. This is very important given the

$78 billion portfolio we have in place. It will allow us from now until the end of '08 to expand our PCRs—I know that is an area we have certainly heard from you on, Chairwoman Velázquez—by 16 percent. That would add another nine PCRs. And then in a number of core areas in our field where we just think we need better staffing for outreach.

Chairwoman VELÁZQUEZ. Well, let us talk about one of the programs, the Microloan Program. In your testimony you mentioned the focus of your team will be to help low-income areas, especially women entrepreneurs. The Microloan Program is a very important program for low-income communities. Yet, it is going to be basically flat-funded, eliminated, and it is going to be brought into a subsidy rate, zero subsidy rate.

Take one aspect of the Microloan Program, another aspect of the Microloan Program, and that is the TA, technical assistance. This is a very important part of the Microloan Program. One of the reasons why since the inception of the program only two loans have defaulted. The SBA budget proposal will terminate the TA grant and shift that responsibility to the SBDCs and the Women's Business Centers.

But seven Women's Business Centers will be eliminated so this change comes at a time when they are struggling with their own budget challenges. SBDCs which have been flat-funded for the last six years are seeing counseling. As you can see in that chart, hours dropped not because of a lack of demand but because of a lack of resources. The SBA budget proposes to terminate seven Women's Business Centers, as I mentioned before.

Mr. Preston, I have consistently stressed the need to be realistic when we talk about resources and this is just another example of the agency spreading itself too thin. What generally happens next is what we saw after 9/11, Katrina, contract miscoding and loan fraud. How at a time when the SBA is flat-funding programs and cutting centers can the SBA expect the same level of service as the current TA program provides?

Mr. PRESTON. There are a lot of questions in there so let me start off with Microloans. Obviously those are all very important and valid concerns. First of all on the microlending side. I just want to say that I believe microlending is a very important tier capital in our country. Microlenders perform an important service. I hope you all know that this is the first time in, I think, four years that the agency has even come forward with any kind of Microlend program. We have moved from recommending the elimination of the program to embracing the concept but trying to do so in a way that is on a zero subsidy basis.

What I would say is the amount of money that we spend in TA on that program relative to the scale of that program is very significant. We have made, I think, just over 2,500 microloans last year and spent $13 million in TA. We had this vast network of TA providers already in place. This is 2,500 loans relative to a million and a half people that they counsel so we are looking to leverage that network. Some of these microlenders already do leverage that.

Chairwoman VELÁZQUEZ. They are not for profit, Mr. Preston. Now they are going to be faced with increasing fees and these are the people and the organizations that provide technical assistance.

As I mentioned to you before, the fact is that in order to help lower-income communities and those who want to start up their businesses in areas where they don't have the skills, technical assistance is an important component. This is why only two loans have defaulted since that program started.

Mr. PRESTON. I agree that technical assistance is essential and we are hoping to support that technical assistance through our resource partners, through our district offices which already handle a dramatically higher volume already.

I also do want to point out that isn't the only program we have. In fact, most of our other programs that reach into these communities are dramatically larger so 7(a) loans, Community Express, these are all much bigger and have much greater volume. I do agree that these microlenders do reach people in many cases that the banks don't. But I think we also have very important services into those communities.

Chairwoman VELÁZQUEZ. Small Business Centers, SBDCs, they are funding has been flat-funded. Already they do not have the resources to be able to provide the counseling for the people that come into their centers. Now they are going to also provide counseling and provide technical assistance for microborrowers?

Mr. PRESTON. Let me comment on that because that was also inherent in your previous questions. The SBDC program, Women's Business Centers and SCORE are all the cornerstone of our training and educational programs. They are critical partners for the SBA to provide a terrific service and we couldn't do what we do without them.

I also want to state, I think, we are developing an increasingly good relationship with those people in acknowledging that. The funds we provide those organizations provide a foundation for them to hire and maintain staff and operating class. They do leverage what we do and do most of their fund raising outside of what we give them. It is important for them to develop that funding base outside of the agency.

We are also working with them. In fact, we have got a series of meetings set up with people from the Women's Business Centers to see if we as an agency can help them be more effective in bringing best practices and fund raising to the agencies or do the SBDCs.

Chairwoman VELÁZQUEZ. Mr. Preston, I hear what you are saying. They are great partners but your budget submission doesn't reflect that.

Let us move now to one of the proposals in your budget, to reduce the 7(a) lender's fee. Given your remarks from last week's State of the SBA Address you indicated that lenders are not particularly concerned with higher fees so explain to me why did your agency choose to reduce the fees for lenders instead of for small business borrowers? This is, in fact, the Small Business Administration. I would have thought if you have a chance to reduce program costs, that we would start by reducing the fees for business owners. Why did you choose not to do that?

Mr. PRESTON. First of all, I do think that these matter to lenders. I think what I probably implied in that statement, and this is something that we've learned time and again, it is not only fees

that matter to people. It is all of the other challenges they face in doing business with us so being simpler to do business, automating processes, that type of thing is very important.

When we looked at making an adjustment in this fee, as you know, the up-front fee to borrowers is a very complex tiering of fees going from 2 percent to, I believe, 3.5. We thought this was the simplest most effective way to convey a fee benefit and also as an incentive to bring more lenders into the system.

Chairwoman VELÁZQUEZ. But this program already is too costly for borrowers. My question to you is why do you choose to reduce the fee to the lenders and not to the borrowers?

Mr. PRESTON. As I said, we wanted to provide an incentive for new borrowers to come in. What we have found is there are many borrowers out there who don't participate in many of our programs and we want to—Madam Chairwoman, one of the observations I have had in the agency is when you look at our programs and who is lending the money. There are pockets of banks in each one of these product areas.

Chairwoman VELÁZQUEZ. I understand.

Mr. PRESTON. We need to get better engagement in the distribution for us to reach more small businesses.

Chairwoman VELÁZQUEZ. Mr. Preston, how could by imposing higher fees represent an incentive for borrowers? Explain.

Mr. PRESTON. This is reducing the fees to the borrowers. I am sorry. I may be misunderstanding your question.

Chairwoman VELÁZQUEZ. Well, you are reducing the fees to the lenders.

Mr. PRESTON. I am sorry, to the lenders. I misspoke. I am sorry.

Chairwoman VELÁZQUEZ. Now I will yield to Mr. Chabot for his questions.

Mr. CHABOT. Thank you, Madam Chairman.

A few questions. Would discuss, Mr. Administrator, the relationship between the tax cuts and especially making them permanent and the effect on the small business community and the economy overall?

Mr. PRESTON. I think, you know, one of the wonderful things about this job is getting out there and meeting hundreds of small businesses. I have had many town hall forums for small businesses just to come and tell me their concern because I don't think I can tap into it any other way.

This is a huge issue for them. They cannot pass on their businesses to their heirs effectively if the tax cuts in place don't survive. They are typically people who are running businesses on a shoestring often. Every dollar of tax money takes away from dollars that they can invest in their business. Taxes are right on the top. The other thing, I will tell you, that is right on the top is healthcare.

These come out of the pockets of these people and they impair their ability to invest in growth in providing services and providing healthcare to their employees. It is felt very robustly by all small businesses. How significantly would it affect the small business community do you think if we failed to make the tax cuts permanent? I don't have statistics for you, Congressman, but I would certainly be happy to get back to you on that. Our advocacy group

does terrific work in evaluating these types of issues. I think it would be unrealistic to say that we would have as many small businesses in business if the tax burden on them increased.

Mr. CHABOT. And a significant number of the jobs that are created nowadays in the small business community.

Mr. PRESTON. Absolutely.

Mr. CHABOT. Thank you. Next, what are you ideas for increasing lending in under-served areas both in cities and in rural areas and what ideas do you have to increase capital access for small businesses?

Mr. PRESTON. I think it really has to do with two primary things. It is the product that we offer to make it attractive to the borrower and it is the distribution of that product and that is engaging the bank network. What I started to say before I got a little tongue-tied is when you look at each one of our products they are attractive to different people and they are used by different banks.

If we have a rural product we need to make sure that rural lenders engage with it and then reach rural customers. We need to do two things. We need to do some work on the product development side. We are looking hard at a veteran's product that would be within the structure we have right now a better rural outreach opportunity as well as what we have in the inter-city.

Then we are also talking to our banks about adopting or beginning to market those products more effectively and determining which banks go to rural areas, go to urban areas, and making sure that they are either providing the right distribution for those products.

Mr. CHABOT. Thank you. What can you and what do you intend to do to reduce the opportunity for fraud in the SBA's lending programs?

Mr. PRESTON. Well, you know, you are probably referring to a recent fraud that came up that was detected a few weeks ago. I want to make a few comments on that. First of all, this was a fraud that the loans associated with those frauds happened a number of years ago. Since that time the agency has moved very far along in establishing an Office of Lender Oversight. That was done a few years ago. Expanding that office and bringing more sophisticated mechanisms to review all of our lenders.

The other thing I would say is, that having been said, we are working closely in light of this recent fraud to see if there are things we should be doing that we aren't. We are bringing outside help into the agency to make sure they are looking at our analytical techniques, are we referring the right kinds of things to our IGs, do we have the right systems in place to support that.

Mr. CHABOT. Thank you. My final question, because I want to make sure I am not taking up too much time so all colleagues will have an opportunity to speak as well. Could you comment briefly on the value and the involvement of small businesses and exports? You probably don't have access to these at this point but if you could provide to the Committee dollar and percentage values of exports by small businesses, both agriculture and nonagricultural exports.

Mr. PRESTON. We do have those numbers. I don't have them handy. What I would tell you is export is increasingly important.

We provide support for that and we can give you some very good information there.

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

Chairwoman VELÁZQUEZ. I recognize Mr. Jefferson.

Mr. JEFFERSON. Thank you, Madam Chairlady. Every year when agencies are preparing budgets and making submissions to OMB and the rest, they put together their own numbers and have a vision for what they want to see the agency accomplish. Does the budget that we have here today reflect the recommendations that your agency made originally in the budgeting process?

Mr. PRESTON. Obviously that is a fairly interactive process. What I would tell you is I think this budget reflects what we believe is necessary to take the agency forward.

Mr. JEFFERSON. So this budget reflects your recommendations?

Mr. PRESTON. This budget reflects my recommendations.

Mr. JEFFERSON. You had no higher ones in no area at all? Everything you wanted got done here?

Mr. PRESTON. I wouldn't say that.

Mr. JEFFERSON. Where did they miss taking care of what you wanted?

Mr. PRESTON. What I would tell you, Congressman, is we worked within the Administration to bring forward a budget that we thought provided us what we need to take the agency forward in the context of the overall federal budget which obviously has got fairly significant spending needs for military, for your area of the country.

Mr. JEFFERSON. I understand. I am sorry to cut you off. I only have a little time. It is fair to say that you had recommendations that were different from what we see now in some areas. We will find out what those are maybe a little bit later on. Has there been less demand for the services provided by your agency in the most recent years and now in this current one and the ones you see coming up or has the demand grown for the agency services?

Mr. PRESTON. I think demand has continued to grow for agency services.

Mr. JEFFERSON. So if demand is continuing to grow, how can we justify a budget that cuts back in so many different areas? Let me just tell you what is happening back home with us. Seven years ago we had 27 employees in our office back home. Now we have nine. I think four of these are clerical people, too, who are just filing and trying to keep up with things.

The demand is certainly growing down there. With the new challenges we have with the disaster there they are even more significant.

How can you expect this budget to work when the demand is growing not only in our area but all over the country and they are operating with a third of the staff they had seven years ago?

Mr. PRESTON. The agency overall is not operating with a third of the staff but the field has become smaller. We are operating in a fundamentally different operating model than we did several years ago. We used to do loan processing in branches. We used to do all sorts of things in branches that we don't do today. I think going forward, sir, what we need to do is make sure that our branches—our district offices, excuse me, are focused on effective

outreach and effective counseling for people in the field. They are doing a lot of things today that they shouldn't be doing and we want to make them better at spending all their time serving small business.

Mr. JEFFERSON. The top three positions that are unfilled in our office back home are the Deputy District Director to the Loan Officer, the Head of Government Contracting. You can't hire these people because there isn't any money there. I don't know how efficient he can be if he's doing all four jobs and getting this done. I think it is happening not just in my area but across the board but I do know our area best.

Let me ask another thing if I have anymore time here. There is a carryover of $329 million, I think, for the disaster loan program. How much of that and does any of it represent loans that are already in process there may be some obligation on? Do you know?

Mr. PRESTON. What it does is any loans that have already been—there are two pieces to that, Congressman. There is a portion of that which pays for a subsidy on the loan itself and there is a portion of it that pays for administrative cost to service that loan over time. Any loans that have already been obligated would not be in that number. To the extent, for example, that we have loans from hurricane Katrina disaster that are serviced along the way, the administrative portion of that would support the ongoing service of those funds.

Mr. JEFFERSON. Do you think the amount of $329 is sufficient to meet the disaster loan needs that you see coming up in the next year?

Mr. PRESTON. We estimate it is sufficient to meet the need for just over a billion dollars worth of disaster loans. Now, if there is a very significant catastrophe, and obviously this isn't the kind of thing we can project, what has happened historically is Congress has provided supplemental funding specifically to meet the needs of that disaster. But this is a very obviously somewhat of an intermittent process based on the need.

Mr. JEFFERSON. My concern is that this may be just an illusionary number because there is such a demand in this program and we still have many loans out there pending. I suspect the pending looking at this money already from last year and for maybe even years before that and we are acting as if it is totally free and unobligated.

Mr. PRESTON. Any dollars that are already committed in the Gulf are included in the prior budget. It just helps us service those going forward.

Mr. JEFFERSON. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Jefferson, next week Mr. Preston will be back here and we will be discussing the disaster loan program in detail.

I would like to recognize Congressman Buchanan.

Mr. BUCHANAN. Thank you, Madam Chair.

Mr. Preston, I want to go back to Madam Chair's question on fees. The fees that we are talking about with banks, how much does that cost us by reduction of all those fees? Do you have any sense of that? What do you think it's going to cost?

Mr. PRESTON. I don't have the dollar number off the top of my head but it is on a portfolio of just over $40 billion so it would be 5.5 basis points on $40 billion over time. I don't have that calculation for you.

Mr. BUCHANAN. Okay. Well, you say 5.5 basis points. I thought you said 55 basis points.

Mr. PRESTON. I'm sorry, on 17.5. It is on new loans only.

Mr. BUCHANAN. Okay. You are talking about three different sources of fees. It says 55 basis points you brought up and a 50 basis point fee that was going to go out of sight.

Mr. PRESTON. I was talking about two separate programs. We have something called the 7(a) program which is our primary small business lending program. There is an up-front fee and then there are annual fees in that program. That program we are having a 5.5 basis point reduction of the annual fee. In the 504 program which is primarily a real estate financing program we are seeing a reduction in the up-front free which is very dramatic. The reason for that is it reflects the credit experience in those two different portfolios.

Mr. BUCHANAN. But when I look at banks and talking to banks in our region, it seems like there is very little effort or marketing on behalf of the organization calling on banks. What do you do about that? How do you track banks? The second question is what size banks participate in the program? Are these small $100 million asset banks? Are you dealing with large banks or what size banks?

Mr. PRESTON. It is really the entire spectrum. What happens is we have different products and then we also have different processing methodologies with the banks that are adaptable for the kind of bank. For example, if it is a very large bank with a lot of IT capacity, they will tend to use a more automated process. If it is a small regional bank that might make three or four loans a year, they don't want to invest in an automated process so they will do a lot more of it kind of by hand. We do have an entire network of thousands of banks that work with us and we would be happy to show you kind of who they are and where they lend and that type of thing.

Mr. BUCHANAN. Being on bank boards it doesn't seem to me that banks that participate in SBAs usually are not motivated as much by a little bit of reduction in fees, especially if we are looking for additional revenues. Either they want to do it or they don't. That is my sense of it. Obviously I am new to this process but it is something I want to kind of look into.

Mr. PRESTON. You are on to a very important issue and let me just take two seconds on it. I think as much or more than the fee is the ease of distributing the product and the ease of doing business with us. A lot of what we are focusing on is that relationship and we have begun to engage banks to help us understand how to simplify it for them.

Mr. BUCHANAN. I think if you get a minute I would like to know what collectively all these fees that we are discounting to banks what is that costing us or costing the program because I don't think it is as much the reduction of fees, I might be wrong, as it is just the marketing and working with the banks.

Mr. PRESTON. I think you are right. I think you are right. These fees all keep the program at zero subsidy so basically we look at the portfolio going forward based on what our experience has been and we need to make the fees fit the zero subsidy in the program and that is why these fee reductions are occurring.

Mr. BUCHANAN. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you. I will recognize Congressman Shuler.

Mr. SHULER. Thank you, Madam Chair.

Mr. Preston, thank you for your presence today. I would just like to reiterate as my colleague, Mr. Buchanan, I would agree. It is not so much the loan as the percentage that the banks will be losing, It really gets to more of an educational process with the banks and with the small businesses that they are actually available living in a rural district that those funds could be available for them so I think it goes far and beyond just cutting the fees. We have to do a much better job of educating the public and educating the smaller banks. Not necessarily the large institutions but the smaller more community private banks that are in the District.

I would also like to follow up. We have certainly talked about this and Madam Chair has done a great job of showing her passion with the Women's Business Center Program. I understand there is re-evaluations or evaluations going with the funding and how those programs would be funded. I have a center obviously in a rural district, a micro-center.

I would just like to make sure that there is going to be adequate funding after the first five years and in looking at that to make sure that after the five years that the SBA is developing a funding formula that will be factoring in these unique challenges in the rural districts for these private fund raising programs. Are you seeing that as part of the re-evaluation or evaluation of the funding?

Mr. PRESTON. I do. I really think we have to crack this issue. We have had 17 centers graduate from the program after 10 years. Sixteen are continuing operation, many of them doing well. I believe one of them did not continue to operate without the SBA funding.

As we have engaged with people in the industry, what we are trying to do is work with them to see given that there is a lot of experience for success how can we help them be more effective in transitioning from full Government funding to partial Government funding to being sustained all by their own.

In fact, we will have a number of representatives from the Women's Business Centers in town next week to work through some of these issues with us but we would be happy to spend time with you in your office or anybody else on the Committee because I do understand the issue. These are terrific people who serve a terrific need.

Mr. SHULER. I would like to follow-up with one other question. Yesterday the Office of Veteran's Affairs was supposed to be working with the Veteran's Corporation. Are you aware of any coordination between the two groups?

Mr. PRESTON. Between which two groups?

Mr. SHULER. The Veteran's Affairs Office and Veteran's—

Mr. PRESTON. We are working right now on how to coordinate with the VA to reach veterans more effectively. There are a lot of

small business owners in the veteran's community with so many of them coming back in the near future, we all hope so we really need to make sure we have not only the right programs in place but the right outreach and we think through the VA and also through DOD we may be able to reach them more effectively so we are working with them.

Mr. SHULER. Thank you.

Chairwoman VELÁZQUEZ. I recognize Mr. Gohmert.

Mr. GOHMERT. Thank you, Madam Chairwoman.

I appreciate you being here today and testifying. I am delighted that I am going to be able to bring up a matter that both Mr. Buchanan and Mr. Shuler did and that is bring up rural lending so you get three of those in a row. That is an area close to my heart. What are your ideas for increasing lending in under-served areas specifically in rural America?

Especially some of us have areas in which there are agricultural entities, state and federal that are moving in different places, consolidating their offices, and leaving for the first time some areas even more under-served which might be a good opportunity for an SBA office. I am curious about if you have looked at that aspect.

Mr. PRESTON. I joke with people but I was the Treasurer of the Future Farmers of America in Janesville, Wisconsin area. My high school is surrounded by farms on three sides so this is something that is sort of in my blood. First of all, our lending to rural has gone up dramatically and continues to go up dramatically. It is being driven by some of the larger banks who are pushing hard into those areas. It appears to be driven less by community banks.

The Chairwoman has often reminded us that we used to have a product called Low Doc that was very effective in reaching rural areas. We, unfortunately, had very high delinquency rates in that particular product. What we are trying to do is look at why people like the product and how we can work with the concepts that worked in that product but do it in a more effective way.

I think we need to look at do we have a product that serves the needs of that community, both for the borrower and for those community banks. For the community banks it is going to be easy to do business with so we have to simplify the process for them.

The other thing we are doing is we are asking for more funding for seven more alternative work sites. I was just out a few months ago. These are sort of one woman/one man offices where people can come in, get introduced to the agency, often get introduced to other agencies, state, local, or federal through our SBA people to help them understand how to get support they can leverage the power of the whole agency if they have bank relationships.

So a little bit onsite presence, a better product, and better outreach to those community banks. Our district network is very excited about moving forward more aggressively in rural markets so I think when we get something they are going to really grab onto it.

Mr. GOHMERT. Has there been any coordination, not that I want to propose something that is just an anathema in Federal Government but coordination between departments? Has there been any coordination between the SBA and the Department of Agriculture in that regard to work for opportunities?

Mr. PRESTON. What you find is our local offices do a very good job of coordinating with other federal agencies in those local areas and they do trade off when they understand, for example, if there is somebody from EDA in Commerce in an area where we have an office. Sometimes we are even co-located but what I would not say is there is sort of a coordinated initiative with the Department of Agriculture to design a product right now. Certainly if you have ideas in that regard or would like to talk more about it, we would be happy to engage with you on that.

Mr. GOHMERT. Just one final suggestion. Something that I ran into is there is such a hunger in rural America to take advantage and work and grow. We see so many Government entities, both state and federal that say, "Gee, I have an opportunity for an office there. Let's go build a building. Let's go rent the nicest thing we can get," when you have courthouses and city halls that are ready to give you space for free if you will just set up an office there.

Mr. PRESTON. Sir, we are a scrappy little organization and we take advantage of that already.

Mr. GOHMERT. I would encourage even more of that because I see great opportunity.

Mr. PRESTON. We really do. I appreciate that.

Mr. GOHMERT. Thank you, Madam Chairman.

Chairwoman VELÁZQUEZ. Thank you.

Now I recognize Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chairman.

Mr. Preston, thank you. When I came to Congress I didn't think I was going to do this but after reading the New York Times this morning I ask my questions based on newspaper articles.

Mr. PRESTON. That makes them easier.

Mr. ELLSWORTH. I didn't want it to be that way. There was something that caught my eye this morning in one of the articles and it was talking about some of your quotes and Mr. Stamler. I don't guess he is here but it was talking about the downsizing in your budget. One particular paragraph says, "Mr. Stamler also said that although the budget documents show the agency's budget dropping from $533 down to $460 million in 2008 almost $90 million of the 2006 funds were what is known as earmarks." Earmarks always make my hair stand up on the back of my neck.

My question is that of that $90 million that he is talking about, and I don't know if you read the article or not because you have only been there seven months, is that money that came out of the SBA budget that could have gone to other things? Do you have any knowledge if that $90 million in earmarks was related to benefiting small businesses? Is that enough to go on?

Mr. PRESTON. Oh, it is more than enough. First of all, I could not get on the list of that earmark with you intelligently right now so I apologize. We could easily provide that to your office and let you know kind of what the purposes of those were and how we used those.

It is very important to understand that there are three components to our budget and each one of them is slightly different. No. 1, core operating needs to run the place. No. 2, core needs to run the disaster program. No. 3, congressional initiatives. As we have

these discussions about running the agency we typically focus on the first and the second one.

Now, what I can't tell you is back in that budget what the give and pull was in proposing a budget without congressional initiatives and then how much it affected our programs. I just don't have that number for you. But certainly when we bring forward this budget, which does not include any type of initiative like that, we are very strongly requesting that we have the core funding we need to run the agency and to the extent that we are asked to administer any other initiatives that they not jeopardize what we need to run the place.

Mr. ELLSWORTH. For the record, the people that sent me here don't like it when earmarks are tagged. If it is a small business earmark and it helps the small business of this country and we put it in there in a transparent manner, I think they would be fine with that. Throwing something in just because they have some dollars there, that hurts our Committee and I think we need to work to clean that up.

My second question would be if you had the magic wand and you found a pot of gold in the budget process or all of a sudden you found a drawer with a lot of money in it, where would you put your dollars? We are cutting and we know we have to be tight. We know we are going to make sacrifices here. Pick me three areas that you say need to be increased, you know, FY '07 loans, microloans.

Mr. PRESTON. You know what? There is a message I have given consistently and I am not sure that people always appreciate it. Part of it is all we come with our own biases and our own backgrounds. After spending 25 years in the business world in financial and operational roles I see a lot of opportunity to be more effective just by operating better by making sure we have funding to support outreach, by making sure we have funding to automate processes.

We still have a lot of things where we see stacks of paper like this in our warehouses with loan forms. Now, we have come a long way but we have a long way to go. In that process I think we become much more responsive to customers, much easier to do business with the banks, and it just enables the flow of our advice, our capital, and our support much better. I would continue to invest in the operational effectiveness of the agency because I think that is where we can really become much more effective.

Mr. ELLSWORTH. I just hope we are doing that and that we are being efficient. If the money is type that we look in our houses first for places we can—I am not saying you don't. I would bet that this Committee if we find examples that we are not we will call attention to it as I expect them to do that to me, too. I appreciate your time and I would yield any time I have left.

Chairwoman VELÁZQUEZ. Thank you. Now I recognize Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Madam Chair. I appreciate your leadership in holding this Committee hearing today.

Mr. Preston, welcome. Nice to see you.

Mr. PRESTON. Thank you.

Mr. FORTENBERRY. One of the responsibilities of this Committee obviously is to have oversight of your agency. It is very quick to

get immersed in the details and I want to do that myself but I want to back out for a moment and say I think you have one of the best jobs in the Federal Government. You call yourself a scrappy little organization. That is perhaps true but you can be a scrappy big cheerleader for one of the most important aspects of life in society.

I mean, small business is where most people are working hard to try to get a little bit ahead in life to provide for their families. For us to think together as to how we overcome the barriers to entry and help more people perhaps engage in the opportunity for ownership or expansion, particularly those that are vulnerable is an extraordinary privilege.

I just learned that you have only been here seven months but, again, I think you have a tremendous opportunity to cheerlead on behalf of what really is a new frontier and that is an entrepreneurial vision in society that allows particularly younger people who are rethinking the whole work model to have a chance to use their gifts, apply themselves, to take risks when it is possible to bring a good product to society and to in turn receive the full fruits of their labor. As we discuss all of the nuances of policy and the frameworks that have been set up by other people who have come before us, I just hope we keep a vision that upholds those ideals but I appreciate you being here.

In that regard, let me ask you something specific. Basically the budget is flat but at the same time you point out that your loan portfolio has expanded by 56 percent in the last five or six years. I think that is a good indication that you are leveraging limited resources in a more efficient manner and I think that is a positive trend. If you want to comment on that you can, but I do have something specific I would like to ask you in regards to the new market tax credit pilot.

Mr. PRESTON. Yes.

Mr. FORTENBERRY. There is a sentence here that summarizes the program and I would like you to translate it for me and unpack it a little bit and then show examples of how this is currently working or how you envision this to work. The sentence says that, "The pilot program allows certain community development entities to purchase up to 90 percent of the gross loan amount of SBA express or community express 7(a) loans up to $150,000 made to NMTC-qualified businesses in low-income communities."

Help me out here. Let's translate that a little bit better. Let's unpack that and how you envision that to be one of the new methodologies in which you further leverage your resources to help people in particularly vulnerable areas. The other thing is define economically distressed.

Mr. PRESTON. Okay. Great. Economically distressed we are talking primarily about rural markets and inner city markets where we see higher unemployment and lower wage rates. There are a number of different federal designations like LMI, Hub Zone, New Markets. We are doing a lot of analysis right now to understand how those designations map to where the greatest need is and how much of the population they cover, etc., etc., etc.

On the new markets tax credit, in fact, Congresswoman Moore was with us in Milwaukee when we announced that pilot. What

happens is the Treasury has this new market tax credit program which provides community development and the investors in those entities with tax credits for investments that entity makes. Typically it is more heavily focused on real estate right now and some other investment types.

What the pilot does is it enables those community development entities to buy SBA loans from banks so they now buy the loans. They get a tax credit for the purchase of those loans. It does two things. It frees up capital at the bank so they can make more loans to small businesses and it allows them to purchase it in a way that provides a financial incentive. Hopefully through that whole chain of events we would see value accrue to the ultimate borrower.

Now, there are some very complicated technical aspects to how loans are structured, how these tax credits are structured, and how these CDEs are structured that we are working through. What I would say is I don't expect that pilot to be a home run. I expect it to provide some incremental benefit and I expect it to be a very important learning experience for us in how we can convey tax benefits to get more capital to people who need it the most.

We are working right now with banks to understand how we can make that more effective. Does that make sense? I appreciate that it is a very complicated set of concepts.

Mr. FORTENBERRY. We will have to spend a little more time working our way through that. Fair enough. Perhaps we can work more directly with you in understanding that. Just because you are from Janesville I hope there is not a bias toward having new pilot projects just in Milwaukee. Nebraska has a need, too.

Mr. PRESTON. The Packers are on the television in both cities.

Chairwoman VELÁZQUEZ. Time has expired.

Mr. FORTENBERRY. Thank you.

Chairwoman VELÁZQUEZ. I recognize Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chair. Mr. Administrator. I just wanted to ask two questions. One in the line of what our Chairwoman, Nydia Velázquez, has spoken to you about and that has to do with the Microloan Program. For many communities, particularly urban communities like mine in central Brooklyn we see that as the ground floor of the escalator that really stimulates the economy for distressed communities.

And you state that you are planning on raising the interest that the Microloan subsidies pay SBA to offset the cost of the Microloan Program but you are zeroing out the funding for Microloan technical assistance. Can you detail for us how you expect to really be effective with the program if the technical assistance component is not married to real effective on-the-ground assistance to folks, one.

Then, secondly, there is a position that has been vacant since the beginning of your tenure which is the Associate Administrator for Government Contracting. This goes to the heart of women in minority owned business enterprises and their ability to really access over 24 different federal agencies. I would like to know the status of that position because that goes a very long way in really stimulating economies in communities like mine.

Thank you, Madam Chair.

Mr. PRESTON. Okay. Let me start with your last question first. There are a number of vacancies in that area which we are work-

ing hard to fill. It concerns me because we have a very big job to do. It is an absolutely critical function that we undertake and those jobs have been posted. We are looking at candidates and there are a few critical jobs there.

One of my colleagues just reminds me that they are actually reviewing candidates on a panel next week for this specific job. I appreciate your concern. If we don't move quickly on it, you can continue to push us and you will be back and I thank you for that and that is your job and I appreciate it because we need to fill those jobs.

The Microloan Program what we are proposing to do is move the technical assistance from the microlender to our network of thousands of counselors that are already in place that already meet a million and a half small businesses a year. We make a little over 2.5 thousand loans a year in microlending and we have thousands of counselors in our preexisting network so we are asking for support from those people.

It is a minuscule addition to their volume. We are actually asking for more money to lend to microlenders. We have put out between $18 and $19 million to microlenders last year. We are asking for authority to be able to lend $25 million which would allow us to put more capital out there.

I will say the capital would be somewhat more expensive because today we lose money on every dollar we put out. We are asking to break even on every dollar we put out and that is the difference in the loan amount. It is not always an issue of cost. It is also an issue of access to capital so we would like to expand our reach.

Chairwoman VELÁZQUEZ. Will the gentlelady yield?

Ms. CLARKE. Yes.

Chairwoman VELÁZQUEZ. Yes, Mr. Preston, it is a matter of cost. Microloans for low-income people by bringing this microlending out to a zero subsidy it means that some people might have to pay as much as $4,000 for the life of their loan. If this is the way we are going to help borrowers from rural America and urban centers in low-income communities?

Mr. PRESTON. I think it is important to recognize that this is one product of many products that reach into those markets. I think there are also a number of microlenders out there that lend that money much more efficiently who cover their cost structure more effectively and for whom having more capital would allow them to lend those dollars cheaply.

Madam Chairwoman, I do recognize it is entirely possible that there are going to be situations out there where the cost would go up. For the borrowers who are probably the least credit worthy, that is going to be a burden for them and would have an impact on their ability to repay that.

Chairwoman VELÁZQUEZ. How are we going to fix it?

Mr. PRESTON. I think what we continue to do is expand capital out there and expand opportunity, expand resources through all of our lending program to continue to try to reach these markets, but this one for the amount of money we are lending comes at a very, very expensive price to the taxpayer.

Chairwoman VELÁZQUEZ. Before I move to Mr. Davis, let me remind you that year after year of budget submissions coming from

SBA you try to cut the Microloan Program and year after year we put it back and we will.

Now I recognize Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairlady. I appreciate the opportunity.

Thank you, Mr. Preston, for being here. My question goes about understanding that most of the jobs that are created in the American economy today are coming from small business. I am really more concerned about the small business owners and the jobs they create back in my district and across America than I really am the Government infrastructure and the amount of federal employees that we have and the amount of regulation and burden that puts on small business owners.

I know you have worked in the private industry as well as the public sector. Thank you for your leadership in both. My question comes to the point the small businesses across America do you think they are more concerned with spending at the federal level in bigger Government or do you think they are more concerned with lower taxes and less regulation? Which helps them the most?

Mr. PRESTON. I think it is clearly the latter. I think we are talking a lot obviously about our programs very importantly because we are talking about a budget but these macro issues are critical to them. I think we all understand small business owners are often the CEO, the head of marketing, the head of finance, and the person that is filling out all those regulatory forms. More regulation is a very significant burden I hear consistently in the field. The tax dollars come out of their pockets, it comes out of their ability to reinvest in their business which creates jobs which enables growth and allows them to be competitive. I appreciate your concerns and I think it is as you implied by your question.

Mr. DAVIS. I think the small business owners I talked to are not as interested about how many employees we have in Washington. They are more concerned about how many employees they can hire in their local community to help our economy. Thank you for your comments.

Mr. PRESTON. Thank you.

Chairwoman VELÁZQUEZ. Now I recognize Mr. Sestak.

Mr. SESTAK. Thank you. Thank you, sir, for your time. I appreciate your comments on the tax cuts. The fact is in my Delaware County, 85 percent of which is my district, we have lost 607 small businesses in the last three years.

As I kind of looked at the administration over the last four years and saw 200 percent increase in the cuts of programs that affect small businesses across all the Government over the last three years and watched one out of five small manufacturing establishments disappear from Delaware County, 85 percent of my district in the last three years, I sit back and hear you talk about all the increase of jobs that have been done. I guess it was 3.5 million.

At least in Pennsylvania, and I believe it is the same state wide, when you compare the jobs that were lost the first couple years of the administration and the median income of those and those that have come back, the median income of the jobs that have come back is below that of median incomes that were lost.

When I sit back and ask what the Government is doing for small businesses as far as access to capital and to entrepreneurial assistance in the sense of technical advice and all, I guess my question is first for small SBDCs. There is only, I think, 18 in Pennsylvania and I just established one not in my district nearby in January. I met with the president of Widener University last weekend.

I guess my question comes as I watch the decrease that has occurred and the monies that come to Pennsylvania SBDCs. Have you given up on believing in the demand for entrepreneur developmental services, particularly with the viewpoint of a wonderful district that has lost 607 small businesses and with an administration that has a 200 increase in those same years and cuts of small business programs across the administration?

Mr. PRESTON. Specifically with the SBDC program we think those people do very important work. I think the comment I made before—

Mr. SESTAK. I know they do good work but the amount of money coming in has decreased and we have kind of flat-funded it.

Mr. PRESTON. If we have flat-funded it, we are not their primary source of funding. We provide a base level of funding and then all those SBDCs then go outside and raise funding from any number of other sources. That is where they get their funding growth from. What I mentioned before is we are beginning to do this with Women's Business Centers. We would welcome the opportunity for SBDCs as well to work with them on bringing best practices to how they can be better fund raisers and more effective in getting funds from sources other than the Federal Government.

Mr. SESTAK. Could I ask then another question on USEACs. Again, there isn't one nearby but there is one inside Philadelphia so I met with him about three weekends ago and my view has always been particularly in a globalized world that you would think that improving market opportunities in such a globalized world would be something.

When I met with him I asked what are the opportunities and are they being missed. The Director said, "Yes, they are." He is putting together an economic summit now for us in a few weeks to bring people together.

I guess my thing is that it appears as though the FY '08 budget anticipates that the cost for the international trade or assistance programs are actually going to decline. Again, my question is why aren't we boosting the SBAs or USEACs or for the 504 CDCs or the 7(a) loans that are zero subsidies if it really is a globalized effort, particular knowing that 607 businesses have gone away?

Mr. PRESTON. We would expect the 7(a) and 504 programs to continue to expand. Those are zero subsidy programs so they are free to continue to grow and we are hoping continue to grow. There is better outreach, better products and we are beginning to work with our banks on any number of initiatives to do that.

With respect to the export assistance, frankly, this is an area we have to get into deeper in the agency. It is an area that is an important area. I am not convinced we are doing enough for America's small businesses on the export side. Frankly, I don't have a great answer for you right now. It is something that is going to require some time and effort.

Mr. SESTAK. Do I have time for one more question? In fiscal year '08 the SBA proposed a loan level for its primary business loan levels basically the same as last year. Does that indicate you believe that the demand for these loans for small businesses will not increase?

Mr. PRESTON. The request for last year there is a significant cushion in that amount. We would expect to have an ability to grow quite dramatically and still be within that with the authorization request that we are asking for. Last year we had the same authorization request but there is still a whole lot of cushion within that for continued growth.

Mr. SESTAK. Thank you for your time.

Chairwoman VELÁZQUEZ. Since we don't have anymore members from the other side here, I will recognize Mr. Chabot for any other questions.

Mr. CHABOT. Thank you, Madam Chair. I won't do it after every one of your people. I'll take some now if I can. I'll try not to be too long.

Mr. Administrator, has the SBA considered whether there is some duplication with respect to the entrepreneurial development partners and programs? For example, is there some overlap among the SBDCs and the WBCs, SCORE, veteran's programs, and the Office of Native American Affairs? Are there some efficiencies that could be implemented that might benefit all of those various programs?

Mr. PRESTON. We are digging into efficiency opportunities there right now and I don't have a great answer for you in terms of how those will look. What I would say is those three networks provide similar services in many cases. They do, however, often serve different populations. The Women's Business Centers often go into more urban areas and will deal with a group of people that might not be comfortable going into a small business development center which is in a university.

My view is there is probably some overlap there but, for the most part, I think the three programs expand their reach by their uniqueness. We also see typically businesses in different levels of their life stage in each one of those groups as well.

Mr. CHABOT. Thank you. I said three questions. The second one is should the faith-based initiative, the President's proposal that he has been pushing for some years now, should it focus on greater coordination with microlenders and microloan borrowers?

Mr. PRESTON. I think that is a very interesting concept and, I mean, there are faith-based organizations out there. What I would say is I am not informed enough to be able to give you a good response but I think that would be a thoughtful area of investigation. We would be happy to talk to you about it.

Mr. CHABOT. Thank you. Finally, some believe that the common redesign, kind of a continual process is my understanding, of the SBA web site sometimes makes it difficult to find items. For example, public information on activities by bank lending partners cannot be found by a link on the SBA homepage. Another example is it is difficult, if not impossible, to find out who is the acting general counsel on the web site and there is no link to the general counsel's office. Can the SBA design a homepage with intuitive links to all

those items that are available on the web site? In other words, can you improve the web site?

Mr. PRESTON. We have, in fact, probably two months ago launched an entire redesign of that web site. It is dramatically more user friendly. It is much easier to get where you need to go. I get on it and look for stuff myself to see. Interestingly enough I was looking for lending partners recently and had a hard time finding it so it is going to take an evolution. But it is an improving process and it is dramatically better than it was just a few months ago. Any issues or suggestions that you all have, or anyone on this committee, we would love to hear them because I think it is going to give us the ability to continue to improve it.

Mr. CHABOT. Thank you.

Thank you, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. Thank you.

I recognize Mr. Altmire.

Mr. ALTMIRE. Thank you for coming for us, Mr. Preston. This Committee has taken a look at the matchmaker program for which you provide $6.6 million in funding for 2008. Over the last four years SBA has allocated in excess of $20 million for this program to generate $34 million in small business contracts. Less than 5 percent of the participants even get contracts.

With funding for the agency so scare, and I believe that chart will show a 60 percent reduction in funding since President Bush took office, wouldn't it make more sense to redirect this funding to one or more of the programs that have been cut or flat-funded for 2008 such as Prime, the Microloan Program, Women's Small Business Centers, or the Small Business Development Centers?

Mr. PRESTON. I think it is a very fair question. I don't know that we do—in fact, I don't think we do a great job of capturing the whole benefit of that program. That is an enormously popular program with small businesses, with large businesses, and with people in the districts where we have had them. A lot of those small businesses walk away with contracts from other big businesses that never show up. I think the program has a much broader impact that is implied by those numbers but I appreciate the question and I would look forward to talking with you more about that.

Mr. ALTMIRE. Okay. Different subject. It is our understanding that SBA approves nearly 2,000 companies into the Hub Zone Program each year but only 600 program examinations actually occur each year. At this rate how is the agency going to keep up ensuring that all companies receive examinations?

Mr. PRESTON. Well, we continue to cycle through those examinations. The intent of that program isn't that every single business gets reviewed in a short period of time. it is more of a structure where you dip in periodically to ensure that there is compliance there. There are other programs where we have annual reviews for every company. It is very expensive. I'm not sure in the Hub Zone Program you would see the benefit of that additional workload.

Mr. ALTMIRE. Okay. I am sure you understand that SBA Zone IG has raised concerns about the program. Nearly 60 percent of companies are not eligible after their program examination. Eighty percent aren't eligible even three years after approval. When this happens companies like those in my district lose contracts to program

participants who aren't even eligible so I would suggest that some more oversight is needed. Given that only $2 million is requested for the program while the cost have averaged more than $7 million, doesn't this just exacerbate the fraud that the IG has already pointed out?

Mr. PRESTON. I think that the numbers you are referring to have to do with line items. I think the investment net program is a bigger number and you see that, I think, in table 8. There is an allocated cost number that will give you the full view of the program. Historically we have had a line item for Hub Zone which didn't reflect all the money we were spending in Hub Zone.

Mr. ALTMIRE. Thank you.

Chairwoman VELÁZQUEZ. I recognize Mr. González.

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

Welcome, Administrator Preston. A couple of questions I had but actually as a result of questions posed by my colleagues, there was a remark you made that said regarding making the President's tax proposals permanent that small businesses cannot pass on business to their heirs. I think that is what you said and I just wanted to make sure that is what you meant.

Mr. PRESTON. I don't remember my exact words but to the extent there is a significant estate tax on small business owners, it is very expensive for them to pass on business to their children.

Mr. GONZÁLEZ. Do you have specific examples of a small business, small farm, small ranch rendered incapable of passing on to their heirs?

Mr. PRESTON. I don't have any today but I think all you have to do is think about the cost, the value those businesses, apply a tax rate, and you will get a pretty clear picture of what the cost will be.

Mr. GONZÁLEZ. I understand theoretically but we have had this debate over a number of years and I guarantee you that my colleagues on the other side of the isle every time we have an estate tax debate and they are talking about the small business, the small farmer, the small ranchers, they can't seem to come up with an example. Let me put it this way.

On our side of the isle we have always wanted to extend, expand, increase the cap on which an estate would be exempt which I think is the reasonable approach rather than eliminating it totally. When I have administrators come from the Administration and tell me and represent and continue to represent that it is hurting small businesses, all I am asking is for the proof. If you can give me specific examples, show me Farmer Brown, show me Mrs. Jones' small business, and we will have a good faith discussion. I am just really concerned when we have representatives from the Administration coming in on that particular issue.

The other question I have is when I have met with my lenders in San Antonio that participate in Small Business Administration sponsored programs, and I understand they have to basically protect their investments and such, but what they tell me is if you make it less attractive for them, it is possible that you will have fewer lenders participating in the programs.

As you contemplate changing the whole scheme to the lenders as to what their profit margin may be and so on, are you also antici-

pating that it may cause as a consequence fewer lenders participating in a SBA loan program?

Mr. PRESTON. I don't think we are changing the cost margin. I probably don't understand your question but we are not doing anything to change the margins.

Mr. GONZÁLEZ. In the past on 7(a), and this is what the lenders were telling me, that as you approach them that there were repercussions to any change in the program. My understanding is that there are monies being made available, that it is a subsidy and so on. I am just saying that may not be the only program. It may not be the only product that these lenders are engaged in. There are consequences to everything we do. That is my only observation that I wanted to make.

Mr. PRESTON. We are, in fact, reusing those fees this year to the lender in the 7(a) program. I appreciate the concern. Certainly if you have any examples, specific examples, Congressman, we would love to understand those because we learn from those.

Mr. GONZÁLEZ. Now I just want you to try to reconcile something for me. I will show you the newspaper article in a minute. What is the difference in the budget request for SBA in 2008 from 2007? Is it an increase? Is it a decrease? I have got newspapers reporting that, "The next SBA budget calls for a 30 percent cut in funding."

Then I have got, "SBA's fiscal year 2008 budget request reflects the President's commitment to American small businesses and the role they play in our economy," which is your statement that, in fact, is this Administration and in this budget and is the SBA actually reducing budget requests? How do you reconcile that this represents a commitment by the Administration to small business?

Mr. PRESTON. We are asking for an increase in the budget for the operations of the agency which is what we use to administer our programs, our 1,000 person field network, the 2,000 plus people at the agency to do the good work of the SBA every day. That represents 86 more people from '06 to the end of '08. For that portion of the budget we are asking for an increase. For the disaster budget we are asking for funds based on an average experience of disasters in this country.

That money does not show up as a line item in the budget because it has already been appropriated by Congress but it is in a different bucket. We are asking for it to be moved so we can use it for administrative expenses. That is how those two components work. When I think about what we have to run this agency, I think of it as an increase which is after years of reductions at the agency.

Mr. GONZÁLEZ. My time is running out. Regarding administrative cost and personnel and such, we do have a situation in San Antonio that is, in my opinion, reaching a crisis level. I know this is parochial in nature but I have heard other members of the Committee actually refer to it. "Chambers upset with SBA delay." I have my Chambers of Commerce, I have got my mayor all upset because we don't have a Director in SBA in the office there for some time.

I know you are going through all sorts of gyrations attempting to find someone but I would really suggest that you check with the business community and business leaders, elected officials at the

city level to see where the talent really lies within your offices when you are looking for the search.

Madam Chair, am I out of time? Thank you very much.

Chairwoman VELÁZQUEZ. Mr. González, the Administrator forgot to mention that 17 out of the 25 core programs have been either cut or flat-funded or eliminated from 7(a), 7(j), Business Link, Hub Zone, Microloan, Microloan Technical Assistance, New Markets, Prime, SBDC, SBDIC Debentures, and so on.

Now I would recognize Mr. Jordan.

Mr. JORDAN. Madam Chair, I am fine, Thank you.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Moore.

Ms. MOORE. Well, thank you, Madam Chair.

Thank you, Administrator Preston, for giving this time. The list of programs that have been cut or flat-funded that the Chairwoman just articulated really feeds right into my question. My question is as I reflect upon your testimony, I was very excited to see on page 2 where you said the agency has a renewed focus on insuring that its products and services are accessible to entrepreneurs in the nation and most under-served markets and those with higher rates of unemployment and poverty, lower rates of economic progress, and that the budget reflects that renewed focus on these populations.

Then as I look through all the programs that have been cut or flat-funded, and you have heard other members talk about the zero subsidy program and intermediaries who have a higher interest rate just aren't going to be able to do these programs. They are simply not going to be able to use this product. No technical assistance. The exchange you had with Mr. González, in fact, the SBA has cut its work force by a third. The New Market Venture Capital Program no funding. Program for Entrepreneurs, no funds requested. SBIC totally on fees. The 8(a) not having been modernized since 1988.

Then further in your testimony you talk about SBA implementing a rigorous state of the art risk management program based on industry standards which to me means you are more conservative, not taking risks, not really being able to help that category of businesses that can't get capital on the industry standards. 7(a) Program mentioned here, your largest guaranteed program with no budget authority, zero subsidy, fee increases for both lenders and borrowers.

Then when you say you are consolidating all of your guaranteed programs, that tells me that there are fewer dollars per program to mitigate that risk. I don't understand what the tie-out is between this renewed commitment to low-income communities and entrepreneurs and the very, very conservative approach that the budget takes. Thank you for your patience in listening to my question, Mr. President.

Mr. PRESTON. I think we are doing a lot of things that are going to be very important for those communities. Obviously, Congressman, you are close to the UEP. You were instrumental in getting it launched in Milwaukee and thank you for that. This is a terrific outreach opportunity for the agency and for related support groups.

We are looking right now at a broad role out of that and how we can do that very cost effectively.

Ms. MOORE. The SBA is not putting one dime into the UEP. None. My earmark for UEP got wiped out but that is another story for another hearing. The SBA is not putting a dime into the UEP.

Mr. PRESTON. What I would say in a lot of these areas like when we talk about having a product that will work better for communities in the cities, when we talk about having more effective outreach in our district offices, our SBICs actually do a lot of investing in under-served markets. A lot of this has to do with a couple of things, making sure we have the right products, the right outreach.

We have over 1,000 people in the field that we direct on the most important activities every day. We can expand, I believe, that UEP by helping local areas use the same technology backbone that some of the UEPs are using to have a good network in place, by working toward district offices to coalesce business partners, to enable urban entrepreneurs to get the support.

I think there are a lot of things that we are doing and can do that don't always translate into dollars in the budget. That is the focus which we are looking at, doing the best we can as creatively as possible by operating the place more effectively and renewing our focus on those opportunities.

Ms. MOORE. Are you saying you are just relying on the private sector to generate economic activity in our communities? I mean, I will yield to the Chairwoman.

Chairwoman VELÁZQUEZ. Time has expired.

Ms. MOORE. I thought you were motioning for time.

Chairwoman VELÁZQUEZ. We will do a second round.

Ms. MOORE. Okay.

Chairwoman VELÁZQUEZ. We will come back to you.

Now I would like to recognize Mr. Braley.

Mr. BRALEY. Thank you, Madam Chairwoman.

Mr. Preston, as someone who has been a small business owner and who has represented a number of small businesses I look forward to working with your agency to improve opportunities for small business. My question is very specific. In fiscal year 2005, which is the most recent year for which data is available, Iowa ranks number 49 of all states for the total dollar value of Government contract dollars awarded to small businesses in a particular state.

Yet, Iowa has one of the highest percentages of small business and this is particularly dire for women-owned businesses which receive only 1.1 percent of federal contracting dollars awarded to Iowa companies despite the fact that they represent 25 percent of the small businesses in Iowa. You testified previously that the SBA wants to fill these nine procurement center representatives who are responsible for helping small businesses get contracts. There aren't any in Iowa. Is the SBA going to place one there?

Mr. PRESTON. We don't have all of the locations planned yet, Congressman, and we would be happy to talk with you in your office about that possibility and where would it best be located if it were in Iowa.

Mr. BRALEY. I will look forward to that opportunity. Along that same line, can you identify three initiatives that the SBA has

taken or plans to undertake to increase Government contracting opportunities for small businesses in my state?

Mr. PRESTON. I can address the issue more broadly. Frankly, I think we are doing a lot. We have just announced a couple of months ago tighter recertification rules which diminish the number of larger businesses that are getting small business contracts. We are instituting score cards for all the federal agencies which we will be rolling out shortly which provide much greater transparency into the performance of all the federal agencies in meeting your procurement targets.

We are working hard with all the federal agencies to scrub their data to make sure that truly small businesses are coded as small businesses in the federal procurement system to ensure that small businesses are getting those contracts. We are working on a number of projects right now to simplify the process of putting small businesses and federal contractors together in addition to hiring the new PCRs. I believe all these things will be very beneficial to small businesses trying to get Government contracts.

Mr. BRALEY. Going back to your first point about re-certification and the point you made in follow-up about greater transparency, is that re-certification process going to result in increased transparency or the public to become aware that there is no abuse of that system by large businesses who are certifying as small businesses?

Mr. PRESTON. The re-certification will tighten up the rules so that, for example, small business that is acquired by a large company can no longer be a small business in a contract that it already has. What I believe will provide more transparency is getting the data from the federal agencies cleaned up and we intend to make that data public.

In addition what I think will increase transparency is by scoring every one of the federal agencies on their performance on small business contracting and making that data public. Transparency, I think, will be very important in moving forward in this whole area.

Mr. BRALEY. As the Chair of the Subcommittee—

Chairwoman VELÁZQUEZ. Will the gentleman yield?

Mr. BRALEY. Yes.

Chairwoman VELÁZQUEZ. Mr. Preston, when is the data going to be made public?

Mr. PRESTON. The data will be made public as soon as we get it clean. We have gotten it from a number of federal agencies. As you can appreciate, Madam Chairwoman, there are millions of entries into this system and I don't have all the clean data at this point. OMB and I jointly sent this letter to all the agencies. We are working actively with the small business procurement people in those agencies.

Chairwoman VELÁZQUEZ. Mr. Preston, we did this. We did it with a staff of 10 people. Why is it that you can't do it?

Mr. PRESTON. I think what your team did is you took a look at what was in there and you highlighted businesses that were obviously large. We are asking the agencies to go back to all of their procurements, many of which I think probably wouldn't be on the radar screen if you just looked at them so we are really looking for clean data there.

Mr. BRALEY. Thank you. Mr. Preston, as the Chair of the Contracting and Technology Subcommittee I have got concerns about the Office of Technology because I think it is so critical to the success of small business owners, especially in rural parts of this country and in areas that are under-served by access to technology. One of my concerns relates to the fact that the separate S&E line item for the Office of Technology was not included in the 2008 budget request.

There is a lot of support on this Committee for the small business innovation research program but some of us have concern that the Office of Technology does not have the resources it needs to adequately direct that program and to reach out to small firms throughout the country. This is based on these factors. The SBA has not altered the size of the SBIR grants to reflect economic adjustments and programmatic consideration since it was directed to do so by the SBIR Enactment Act of 1992.

The Committee staff was not able to confirm the completion on a searchable database that Congress directed the SBA to develop specifically for the Government's work use. We believe that more work needs to be done to encourage small businesses in this country to apply for SBIR grants. In light of those factors, do you believe that the SBA has enough resources devoted to the Office of Technology?

Mr. PRESTON. First of all, I think the SBIR Program is something that is very important to us. It gets important dollars, I think, both for the benefit of the Federal Government and for the small businesses it supports. I would be happy to take up those specific concerns with you to determine whether or not we should be doing something. I would like to leave it at that.

Mr. BRALEY. Would you be willing to return for a Subcommittee hearing where we talk about the Office of Technology and these technology related issues?

Mr. PRESTON. Sure. Absolutely.

Mr. BRALEY. I would very much appreciate that.

Chairwoman VELÁZQUEZ. I recognize Mr. Johnson.

Mr. JOHNSON. Thank you, Madam Chair.

Mr. Preston, I am a brand new member of the Congress and this is my first Committee meeting of the Small Business Committee. The other day I had the occasion to attend a meeting of this Committee where we were kind of putting together our Subcommittee assignments and that kind of thing. In my being naive I asked a question and the question was what is a small business so there was some discussion about that.

I find that question begs for an answer. I understand that since 2004 your SBA Office of Science Standards has been undertaking an overhauling of the size standards methodology. This with an eye towards establishing some ground rules as to what is a small business because if you don't have that, then, of course, large businesses can come in and get small business contracts. Can you tell me when will your office complete this overhaul?

Mr. PRESTON. I think coming into this role I shared your confusion over what a small business is.

Mr. JOHNSON. I don't have a lot of time. I just want to ask you to give us a date as to when that will be completed.

Mr. PRESTON. We continually look at the size standards and we have some size standards that we are looking at right now. I have a meeting, I know, with my staff next week on particular industries right now that are under review.

Mr. JOHNSON. Because you realize that with no size standards then it is like a big loop hole the size of the Grand Canyon that allows for businesses other than small businesses to feed at the trough, if you will.

Mr. PRESTON. There are size standards in place for all industries in federal contracting. The issue is, is it the right size given the industry it is in and that is the work that we continue to do. We continue to refine that.

Mr. JOHNSON. So you are saying that is just a continuing process?

Mr. PRESTON. Because you have so many different industries. Some of them might be fine and some of them might be a little off.

Mr. JOHNSON. I will tell you, another concern of mine has been the fact that there have been surveys conducted of small business owners who are not satisfied. They have a low level of satisfaction with the Small Business Administration and their ability to get relief. While large businesses have continued to move employees off shore and small business has been the economic mainstay of our employment base here in America and in the 4th District of Georgia, which is what I represent, the SBA has continued to since 2001 cut its employees. In 2001 there were 3,017 employees nationwide in this vast country of ours but 2008 projection is just 2,000. Does this reduced work force reduce the productivity of your agency?

Mr. PRESTON. I think the 2,123 people we are asking for for 2008 is an 86 person increase over '06 so we are looking to go back up in the number of people we have. It is lower than where the agency was a few years ago. I think that is primarily attributed to the centralization of a lot of activities that were heavily processing based.

Mr. JOHNSON. Has this diminution in your employee base cut your productivity as far as delivering services to small business?

Mr. PRESTON. Our services have all gone up. I mean, our loan volume has gone up, the counseling sessions throughout the network, the number of Government contracts we support.

Mr. JOHNSON. That is great news. It will be surprising to many. Let me ask one last question. Your procurement center representatives who examine bundled contracts for opportunities for small businesses, do we have enough of those?

Mr. PRESTON. We are asking to add nine which we think will provide us with a 16 percent increase in the number of PCRs out there. We are looking forward to getting those people on board and having them be productive because they perform a very important service and they will help us get after many of the issues that you are focusing on.

Mr. JOHNSON. Thank you.

Chairwoman VELÁZQUEZ. Now I recognize Mr. Larsen.

Mr. LARSEN. Thank you, Madam Chair.

Administrator Preston, thanks for taking some time with us this morning. I wasn't here earlier to hear testimony but I will review it at some point in the future. Hopefully I am not repeating some

questions that were asked. I just have really two sets of questions, questions on two separate topics. The first is regarding the SBDCs. Certainly in Washington State I would argue they have a very successful track record. Not only in the state but in my district a great track record in helping small businesses.

I think in response to Mr. Sestak's question, I think you answered part of my question that I have. The question was why are you cutting funding for SBDCs. What I heard you say essentially, that kind of question, was that the federal dollars are not the primary source for the small business development centers. Is that correct?

Mr. PRESTON. Well, yeah. First of all, the funding would be flat and it is not the primary source of funding.

Mr. LARSEN. The idea would be that they continue to raise additional dollars to support other activities outside the dollar allocation they receive from the SBA?

Mr. PRESTON. That is correct.

Mr. LARSEN. And then you wanted to help increase their capacity to do that? Did you say that as well?

Mr. PRESTON. We are specifically working right now and we are at the front end of this with Women's Business Centers on how to bring best practices to bear. That may be a model that we can then take to SBDCs. The SBDC network is much more developed and has resources and that type of thing so it may not be necessary but, yes.

Mr. LARSEN. It begs the question what is the appropriate split between raising outside funds and providing services to entrepreneurs? As you go through this consider that because spending some of your time on trying to raise outside money you are not spending that time on providing services to small businesses and entrepreneurs.

The argument I can understand you are making. I can understand your argument. All the dollars are from the Federal Government, SBA. I appreciate that you need to get outside funds but there is a balance for these folks because they are busy trying to do their work to help people create work and create wealth for others. I hope you take that into consideration as you are analyzing the outreach.

Mr. PRESTON. Thank you.

Mr. LARSEN. I am full of great advice. You are going to get lots more. Don't worry about that. It is also unclear to me what the funding request is for SBA's Office of International Trade. I think you discussed again in response to Mr. Sestak's questions some things about expert assistance centers but can you give me an overview of all OIT will be funded? Is there a cut or programmatic changes?

Mr. PRESTON. I think the number for '06 is $4.3 million. The number for '08 is $5.2 million so that is about a $900,000 increase in that office.

Mr. LARSEN. Okay. That is good to hear. Last year I introduced a bipartisan bill, a friend of mine from Illinois, Mr. Kirk, the US-China Engagement Act. One of the things that we are asking for is some additional help for small and median-sized businesses to encourage export promotions, specifically to China. There is obvi-

ously a lot of talk around about China and China and trade. Certainly there are a lot of concerns about that.

Also being from the most trade-dependent state in the country, Washington State, I want to take another view on that a little bit and try to promote and find ways to get our products out of the country into the hands of the Chinese for their consumption, not so they can steal intellectual property associated with it. Part of that, I think, is export promotion for small and medium-sized businesses in this country. As we move forward on reintroducing that bill this year, I hope to touch base with you and see what we can do to improve a section on that as well.

Mr. PRESTON. We look forward to talking to you. We just signed a MOU with China to work with them to open up their borders for small business export to China so we look forward to engaging with you on that.

Mr. LARSEN. Excellent. Thank you very much.

Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Well, how we are going to go into the second round of questions. If members wish to stay, then you will be able to ask more questions. Mr. Chabot.

Mr. CHABOT. Thank you very much, Madam Chair. I will be brief. First, Mr. Administrator, what happens if an office in the SBA doesn't meet its performance goals? What do you generally do in that circumstance?

Mr. PRESTON. Well, what we typically do, we are in the process right now, first of all, of looking forward to what those performance standards are in all these program offices. The answer is a little premature because we are beginning to look more at what they need to be doing.

To the extent that we don't meet those objectives, what we need to do is dig down and understand why? Are there operational processes? Is it a funding issue? Is it because we don't have the right relationships with our bankers or other people outside the agency that we work with and get on with the business of rectifying those issues.

Mr. CHABOT. Do you believe there is a gap in the market? Does it exist for start-up equity capital? If so, what can be done about that?

Mr. PRESTON. I think there is a very robust market out there for start-up equity capital. That having been said, I think our SBIC program does expand that market. As such, I think they support a critical need that may not be supported if they weren't there.

Mr. CHABOT. Finally, I know being in your seat it sometimes feels like you are in a trial and you are being cross-examined. There have been a lot of questions. Are there any questions that you would like to elaborate on or anything that you wanted to maybe give a more complete answer than you were able to give?

Mr. PRESTON. No. I think you all have been very kind in little we talk pretty fully. What I would say is there are a number of things we are trying to do that we don't think are entirely budget dependent and there are other things that we are trying to do that are budget dependent. I think it is important for me to send a message that we are trying to continue to operate the agency more effectively and expand our impact in that way in addition to what

we need budget for. I think that is a very important focus of the agency going forward.

The other thing I would like to do is just encourage people to meet with us informally to see how we are advancing the agency because I think we have a lot of good news to report today and we will have a lot more good news in the future.

Mr. CHABOT. Thank you. I yield back.

Chairwoman VELÁZQUEZ. Mr. Johnson, do you have any other questions?

Mr. JOHNSON. No questions.

Chairwoman VELÁZQUEZ. Mr. Preston, I do have more questions. I would like to talk to you about the massive problem with small business contracts being awarded to large businesses in FY 2005. As an example, some of the entities counted as small were Microsoft, Pitney Bowes, Rolls Royce and the U.S. Air Force. To deal with this problem SBA proposed a regulation to require companies to re-certify their business size every five years and to prohibit agencies from taking credit for them if they were no longer small.

This solved only 20 percent of the problem leaving 80 percent of the problem, most notably, large businesses. Those businesses that were small and grew or were acquired that represents only 20 percent. Why did SBA choose not to address the biggest problem of awards to large businesses?

Mr. PRESTON. I think, first of all, we have had many conversations with the other agency about this issue. I think there is a significant amount of miscoding in those numbers. The first line is to get them to go back clean up their data, get the right data put together, and in the future ensure that when they submit those numbers that indicate small business contracts, they are right the first time. I don't think we can tolerate that level of data inaccuracy.

Chairwoman VELÁZQUEZ. What you are saying is that you are giving us a commitment that you are going to be checking the contract coding data before it goes out?

Mr. PRESTON. I am giving you a commitment that I am going to make it public to the extent that I can do that. It is public right now in FPDS-NG.

Chairwoman VELÁZQUEZ. But that you will make sure that they are not large corporations or ineligible to get the contracts intended to go to small business?

Mr. PRESTON. I think the responsibility of that data needs to lie with the other federal agencies who are submitting it. They are the ones that are responsible for it. They are working very hard on getting it right. I would not commit to you at this point that we are going to go and audit all of the small business contracting data.

Chairwoman VELÁZQUEZ. Then you will say that you will qualify the data as estimated instead of the usual stand of stating as fact that small businesses receive a certain amount of contract awards making it clear that there might be some errors?

Mr. PRESTON. We had not considered that route, Madam Chairwoman, but we would be happy to talk to you about that.

Chairwoman VELÁZQUEZ. Sure. I know that the SBA is not licensing any new SBIC participating security firms. However, by not providing existing participating security firms with the maximum leverage that the SBA had agreed to provide, many SBIC

will be unable to fulfill their initial business plans. This could impair the SBICs and also adversely affect the small businesses that these SBICs have invested in. What is the agency doing to assist these SBICs that are expecting and need additional leverage?

Mr. PRESTON. First of all, to my understanding we are meeting all our contractual commitments there. Any initial commitment letters we made we communicated heavily with the agency to let them know what that meant. Now, on future commitments for these participating securities SBICs we are working right now with the industry to see if there is a solution that would allow them to get additional capital that they need.

In fact, we were on the phone with representatives of the industry yesterday. Hopefully we can support them in a way that works for all of us. I do want to highlight we are not breaching any contractual commitments in this and I think we communicated well with the industry as these agreements were expiring.

Chairwoman VELÁZQUEZ. Okay. Let us talk about the Women's Procurement Program. It was created on December 21, 2000, 2,238 days ago. As you know, the U.S. District Court for the District of Columbia has already found more than a year ago that the SBA has unreasonably delayed the Women's Procurement Program. My first question is when will the study of under-represented industries be done?

Mr. PRESTON. Okay. First of all, I appreciate the concern. It has taken too long. I am committed to getting the job done. We spoke with the RAND Corporation yesterday. They expect to have the final report to us in 10 weeks.

Chairwoman VELÁZQUEZ. Ten weeks?

Mr. PRESTON. I will make that report public even if it is before any final rule is proposed. You will have the ability to see it as well as everyone else.

Chairwoman VELÁZQUEZ. When will the regulations be done?

Mr. PRESTON. We will begin working on those regulations when we think that we have enough preliminary data. We have gotten a long way on the procedural aspects of it. We need to see the data to determine under-represented industries. I can't give you a hard time line right now until I see that.

Chairwoman VELÁZQUEZ. How about an estimate of how long?

Mr. PRESTON. I would expect to be in the interagency regulatory process prior to the publication of that report. At that point we would hope once it gets published we would like to make it an interim final rule so people would have the ability to see what it is before it goes final.

Chairwoman VELÁZQUEZ. Would it be fair to say June?

Mr. PRESTON. June is a possibility. Maybe a little bit longer. As I said before, I am committed to move this along as expeditiously as possible and to share with you our progress along the way.

Chairwoman VELÁZQUEZ. So when will the program be up and running?

Mr. PRESTON. I am hoping we will be through this regulatory process this summer.

Chairwoman VELÁZQUEZ. Summer? Fall?

Mr. PRESTON. This summer I am hoping to be through the regulatory process. The only—

Chairwoman VELÁZQUEZ. The program up and running?

Mr. PRESTON. What do you mean the program up and running?

Chairwoman VELÁZQUEZ. Contracts.

Mr. PRESTON. Obviously those contracts are to the agencies to provide but we will have a framework in place. I As I mentioned starting out, it has taken me a very long time. I committed to the Senate when I did my hearings. I have committed to various women's groups to put my energy behind this and get it done and do whatever I can to move the process along.

Chairwoman VELÁZQUEZ. It was passed into law in 2000 and women contractors are losing out. Mr. Preston, in November of last year along with the new re-certification regulation SBA and OMB announced the agency score card. Each agency will be graded traffic-light style by OMB and SBA. My first question is will there be measurable standards for evaluation or will they be subjective and would you please outline what those standards will be?

Mr. PRESTON. I think there will be both. I think there will be measurable standards which have to do with numerical targets both for small business procurement over all and in each one of the preference groups. There will also be other targets that will require agencies to show progress in areas like enforcing subcontracting, data quality, and commitment from the top to show a strategy to meet small business objectives. I think it is an important merging of both.

Chairwoman VELÁZQUEZ. Mr. Preston, one of the biggest obstacles to small businesses in trying to do business with the federal market place is contract bundling. My question is why doesn't the score card look at the agency's propensity to bundle contracts?

Mr. PRESTON. I think the score card will take into account a number of factors that would lead agencies to do bundling but we will be looking at their hitting their numbers, their taking specific actions to improve small business procurement. The score card is fairly all encompassing and my hope is that it would discourage bundling. I would also say with our additional PCRs and some of the technologies we are putting in place I hope the agency will be able to look at more bundles to determine whether or not they are going to be effective.

Chairwoman VELÁZQUEZ. I have here a copy of a score card. No place here do you mention contract bundling.

Mr. PRESTON. It talks about strategies to get small business contracts, to grow small business contracts. It talks about tone at the top. It talks about any number of other factors that will get contracts to small business which should—

Chairwoman VELÁZQUEZ. It would be nice to recognize the number one issue facing small firms with the federal market place, contract bundling. Another element in the score card is whether or not the agency has implemented a strategy to increase the number of competitively awarded contracts to small businesses. A number of small business programs rely on sole source contracts. This seems to penalize agencies that use programs such as 8(a), Hub Zones, and service disabled veterans because agencies wouldn't get credit for using these businesses in the score card. Why are these programs not included?

Mr. PRESTON. Madam Chair, my understanding was that the score card encouraged the use of procurement from all small business categories so if there is some confusion in that score card or if I misrepresented something, I would love to talk to you about it and see how we can adjust it.

I do also think it is important that this score card be something that evolves over time to meet the needs of the small business community. If we see that there are shortfalls in it, for example, if bundling isn't addressed firmly enough, we should consider whether or not any adjustments need to be made.

Chairwoman VELÁZQUEZ. My guess is that you need to go and revisit this because you have here that the agency will look if the agency has implemented a strategy to increase the number of competitively awarded contracts to small businesses. It doesn't include set-asides.

Mr. PRESTON. The procurement targets would allow set-asides to be included, I think. Let us talk about that. I welcome your input. Thank you.

Chairwoman VELÁZQUEZ. We need to make it clear.

Mr. PRESTON. Okay. Thank you.

Chairwoman VELÁZQUEZ. Lastly, the proposed score card will measure top-level agency commitment. Many agencies will argue that this will mean that if they hold a lot of small business conferences regardless of whether companies get contracts or not, that then they have demonstrated commitment. Can you briefly explain how commitment will be evaluated?

Mr. PRESTON. I think commitment will be evaluated in a number of ways including actual actions they take, communications that they make to their contract and work force to encourage those actions, measures they are taking to get those contracts in place.

Chairwoman VELÁZQUEZ. Why not if companies are getting contracts?

Mr. PRESTON. I think big companies are getting contracts. Data accuracy is in there so if big companies are getting small business contracts, that will be a penalty on the score card.

Chairwoman VELÁZQUEZ. Okay. Well, Mr. Preston, let me just bring this so that we can clear this transparency issue with the agency. Last July the Committee issued a report identifying $12 billion in contracts that were misquoted and went to large businesses that were intended to go to small businesses. The first move of the administration after that report wasn't the re-certification regulation.

Rather, it was to conceal portions of the main database used to determine whether companies are large or small. We are constantly hearing the need for transparency in Government. In fact, the SBA has claimed that transparency is one of the reasons for the new regulation. Explain to me how concealing this type of information gets us closer to solving this problem?

Mr. PRESTON. I am not sure what you are referring to in terms of information being concealed.

Chairwoman VELÁZQUEZ. We don't have access anymore to the size of the companies. It was taken off.

Mr. PRESTON. I will have to look into that offline. I am sorry but I am not familiar with the issue.

Chairwoman VELÁZQUEZ. We can't do our job of oversight if we don't have access to the data so we need to work with your staff to make sure that is available.

Mr. PRESTON. We look forward to doing that.

Chairwoman VELÁZQUEZ. Thank you. Mr. Chabot, do you have any other questions?

Mr. CHABOT. No, thank you.

Chairwoman VELÁZQUEZ. Let me thank you again. I have to say this has been one of the most open and honest participation of an Administrator defending the budget that you are submitting so thank you for your openness.

Mr. PRESTON. Appreciate it. Thank you very much.

Chairwoman VELÁZQUEZ. I look forward to continuing to work with you in making sure that the Small Business Administration continues to do your job providing the assistance to small business so that they can continue to grow and expand. We will do our part here to make sure that you have the resources.

Mr. PRESTON. Thank you very much.

Chairwoman VELÁZQUEZ. Thank you. Hearing adjourned.

[Whereupon, at 12:17 p.m. the Committee adjourned.]

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Full Committee Budget Hearing
Thursday, February 8th, 2007

Today, we will review the FY08 budget for the Small Business Administration. This request continues a trend that has seen a systematic decline in these critical programs that helps entrepreneurs. Over the past six years, the Bush Administration has continually made cuts to the agency. This year, the cuts may be different but the results are the same.

We hear time and time again how small businesses are the drivers of the economy and create the majority of jobs. However, under this budget, no program receives a substantial increase – leaving small businesses without the resources they need to succeed.

While I am so pleased to see the enthusiasm Administrator Preston has for working on behalf of our nation's entrepreneurs, it also takes adequate funding to run these programs.

Of SBA's core programs, 75% of these are cut, terminated or flatfunded. One example of this is the women's business center program. The administration plans to eliminate funding for at least 7 Woman's business Centers. With the face of business changing --- cutting the one program whose sole goal is to help the fastest growing sector of the small business community makes no sense.

In addition, Micro loan, one of the only programs that provides small loans to low-income communities, will now be self financed -- forcing start up businesses to pay thousands of dollars more. These changes are completely contrary to fostering a successful business model for these entrepreneurs.

At a time when we need to be showing small businesses that we are committed to their growth and expansion, the administration continues to treat small business as an afterthought. Year after year, we see more and more programs for entrepreneurs getting cut and under funded. This budget request is no different. When you compare SBA's core budget request to overall federal spending, it is the lowest it has ever been during the Bush administration.

These are all valuable programs that have contributed to some of the greatest entrepreneurial successes stories in the country. They have opened the door for so many small business owners to pursue and achieve their dream of running a business.

What is most concerning is that the administration is acutely aware of the problems and yet still proposes insufficient funding. The reality is that if you do not supply more resources, you simply cannot effectively run these programs. This is why we are seeing 9/11 loans used for the wrong purpose --- the problems during Katrina --- small business contracts going to the likes of Rolls Royce -- and an agency unable to detect fraud in the loan programs.

To correct these challenges, only 1% of the budget is dedicated to address these challenges. That is shortsighted and will allow these problems to persist.
Its clear that since 2001 there has been a failure to provide the resources needed at the SBA. For that reason, it has been frustrating to continue to hear how things are getting better for entrepreneurs. What we have before us does nothing to reverse the shortcomings of previous year's budgets and is just more of the same.

We need to provide proper funding for SBA's core programs so they not only run efficiently but expand and help even more small business owners. This nation's 26 million entrepreneurs cannot succeed in this economy alone. I understand that this is Administrator Preston's first term and I appreciate his thoughtfulness so far.

I look forward to working with him and Mr. Chabot to ensure that the SBA has the funding it needs in the future. If we want to invest in small business and boost our economy then we have to do more than what is being proposed today.

Thank you.

Opening Statement

Hearing Name	Hearing on the Small Business Administration Budget for FY' 08
Committee	Full Committee
Date	2/8/2007

Opening Statement of Ranking Member Chabot

"Madame Chairwoman, thank you for holding this important hearing today. I want to welcome SBA Administrator Steve Preston to our hearing – while he's not brand new to the job, this is his first time appearing before this committee. So welcome, Administrator.

"At the heart of the President's spending plan is the goal of balancing the budget in five years. This is an ambitious and necessary goal that will require Congress to make some tough spending decisions and to act in a more fiscally responsible way than it has been acting lately. I believe such spending discipline is long overdue.

"Keeping that in mind, it is important to ensure that the Small Business Administration (SBA) has the tools it needs to fulfill its mission: to help small businesses – the backbone of our nation's economy -- prosper.

"Small businesses are the primary job creators in our economy – creating 60 to 80 percent of America's new jobs annually over the last decade. And they need access to capital to succeed. They also need to have a seat at the table when government is handing out contracts, and they deserve to be given just consideration when a federal agency proposes rules and regulations that could adversely affect them. I look forward to working with Chairwoman Velazquez on these critical issues.

"This hearing is about the SBA's budget request for Fiscal Year 2008. But it's important to point out that the President's budget request for small business is more than just the SBA. The President has proposed making the 2001 tax cuts permanent, including the repeal of the estate – or "death" tax – which hits small businesses transitioning their business from one generation to the next particularly hard.

"The President's individual rate reduction is also very important to small business because over 85 percent of small businesses pay their taxes on an individual basis, as opposed to filing corporate tax returns. These tax cuts returned, on average, $3,641 to the typical small business owner in 2006.

"The President's budget request proposes realistic funding levels and it would strengthen budget authority levels for the primary SBA financing programs. The budget request proposes to cut fees, hire more Procurement Center Representatives to help more small businesses obtain federal contracts, and increases services to

veterans.

"It is also important to highlight what the budget does not do. The request does not repeat many of the mistakes of previous budget requests. It does not call for the elimination of the Micro loan program. It does not call for higher interest rates charged to disaster loan borrowers. It does not call for charging higher fees in SBA's financing program to cover administrative expenses. It does not call for charging Small Business Development Center clients counseling fees.

"With that said, not everything in the SBA's FY '08 budget request is perfect. I believe that many of the entrepreneurial development programs at the SBA should have received at least an inflationary increase. If the SBA can receive more than an inflationary increase to pay for higher staff salary costs and rent, I believe that Small Business Development Centers and Women Business Centers also deserve similar increases because they face identical pressures.

"I look forward to working with the Administrator, the Chairwoman, the Budget Committee, and the Appropriations Committee to see what can be done in these areas and yield back the balance of my time."

Statement of Rep. Jason Altmire
House Small Business Committee: SBA FY 2008 Budget Request
8 February 2007

Thank you, Chairwoman Velazquez. It's a great opportunity for me to be serving on the Small Business Committee, and I look forward to working with you to address the myriad issues facing small business. I know that, under your guidance and leadership, the Committee will be a strong and effective voice for small businesses and entrepreneurs.

Thank you, Administrator Preston, for coming here today to talk with us about the Small Business Administration's budget for fiscal year 2008. I look forward to hearing from you today and to working with you in the future.

Small businesses and the entrepreneurs behind them are the lifeblood of the American economy, accounting for 99 percent of our nation's employers and 65 percent of new jobs, and the Small Business Administration plays a vital role in supporting and nurturing them. Unfortunately, in the wake of the agency's response to recent disasters—notably Hurricane Katrina—and reports of low employee morale, questions persist about whether the SBA is up to the task.

I am concerned that the budget proposal that the Bush Administration has presented to the Committee does little to alleviate these doubts. Without proper funding, the Small Business Administration simply cannot hope to adequately meet the needs of America's small business owners. A 26 percent cut in core program funding from last year's budget request does not signal to me that the Administration is serious about assisting entrepreneurs, veterans, women, and minorities in starting or growing their small businesses.

I hope this Committee, under the leadership of Chairwoman Velazquez and in concert with Administrator Preston, will dramatically reform the SBA's operations and lead it into a new era of economic assistance to small businesses in the United States.

Thank you, Madam Chair. I yield back the balance of my time.

TESTIMONY OF

ADMINISTRATOR STEVEN PRESTON

United States House of Representatives

Committee on Small Business

Thursday, February 8, 2007

Chairwoman Velazquez, Ranking Member Chabot, distinguished members of the Committee, thank you for inviting me here today to discuss the President's Fiscal Year (FY) 2008 budget requests for the US Small Business Administration (SBA).

President Bush has been an unwavering supporter of America's small businesses, and his leadership has ensured that they have played a vital role in our economic growth – adding more than 7.2 million new jobs since August 2003 and helping to reduce the unemployment rate to 4.5 percent, the lowest average rates of the past four decades. By reducing the tax rates small business owners pay and increasing expensing tax provisions on investments, small businesses have more capital available to hire new workers and expand their businesses.

The President is also committed to helping small business owners provide health insurance to their employees by supporting association health plans, allowing small businesses to get the same discounts on health insurance as big businesses. Further, the Administration is working tirelessly to ensure that small businesses are able to grow, and expand opportunities for their workers, by providing regulatory relief and opening markets abroad to make it possible for our small businesses to export their products.

SBA's FY 2008 budget request reflects the President's commitment to America's small businesses and the role they play in our economy. Enactment of this request will enable SBA to continue serving the small business community while ensuring stewardship of taxpayer dollars. SBA's budget request for FY 2008 is $464 million in new Budget Authority. This represents an increase above the enacted level in FY 2006 of 5 percent, excluding the Disaster program and Congressional Initiatives, and larger increase in SBA's core operating budget. The overall budget estimate for SBA is 814 million dollars which includes carryover balances for disaster loan assistance and reimbursements.

This budget request reflects both the vision of the Agency's new leadership team and the progress the Agency has made over the past five years in delivering its programs more efficiently. Since 2001, SBA has achieved growth in nearly all of its programs while simultaneously streamlining processes and developing more cost-effective budget strategies. The new management team will continue to pursue this expansion in services to the small business community while pursuing a Reform Agenda to ensure the Agency's programs are customer-focused, outcome-driven and fiscally responsible and sound. In addition, further enabling our employees to fulfill SBA's mission is an essential element in achieving our objectives in this budget.

Reform Agenda

I am pleased to be heading the new SBA management team that includes Deputy Administrator Jovita Carranza, who was just confirmed in December. SBA's agenda is grounded in the belief that the Agency can improve the effectiveness and impact of its programs and activities markedly, by employing important management principles. These principles will seek to ensure that the Agency is driven by clear outcomes, is focused on serving its customers effectively, enables its employees, and operates a compliant and accountable organization.

The Agency also has a renewed focus on ensuring that its products and services are accessible to entrepreneurs in the nation's most underserved markets those with higher rates of unemployment and poverty and lower rates of economic progress. This budget request highlights SBA's progress to date and describes the Agency's plans for achieving the vision of the new management team in FY 2008.

Since 2001, SBA has achieved program growth of 56 percent in the loan portfolio. By restructuring key Agency operations and reengineering its largest loan programs, SBA has expanded program delivery to the Nation's small businesses.

Through its ongoing restructuring and business process reengineering, SBA has improved and will continue to improve the effectiveness of the taxpayers' dollars supporting small business development. Because of these improvements, SBA will be able to serve record numbers of small businesses in FY 2008 with this budget request.

The principles of SBA's Reform Agenda have already resulted in a dramatic improvement in the Agency's Disaster Loan program. The 2005 Gulf Coast hurricanes resulted in SBA's largest disaster response in its 53-year history. More than 420,000 loan applications from Hurricanes Katrina, Rita, and Wilma (three times the level for the second largest disaster, the Northridge earthquake of 1994) left the Agency struggling to meet its loan processing standards and frustrated many.

Almost immediately after being sworn in as SBA Administrator in July, I spearheaded a fundamental reengineering of the disaster loan processing operation that has dramatically shortened response times, improved quality, and increased borrower support. Backlogs were virtually eliminated and feedback on the new approach has been overwhelmingly positive. We, however, are not finished with the long-term redesign of the disaster process, and are working aggressively to do so in the coming months.

SBA is bringing the same principles to administering its business guaranty programs as well. Reengineering of the loan servicing process is underway and will result in better customer service and less operational redundancy. Building upon its success in consolidating 7(a) loan liquidation functions from almost 70 district offices to a single location, SBA is also finalizing plans to consolidate 7(a) loan processing, 504 loan liquidation, and Disaster loan liquidation. These changes,ensure that loans are managed more consistently and efficiently. In the case of 7(a) loan liquidation, considerable budgetary savings were also realized.

Modernizing agency operations is challenging, but it is essential. The Nation's taxpayers expect SBA to operate using the techniques and practices of sound fiscal and operational management. Through its proactive efforts to improve productivity and performance, while reducing cost, the SBA has demonstrated its commitment to deliver ever better products while improving efficiencies.

With a guaranteed and direct loan portfolio of over $78 billion, SBA has a critical role as a steward of taxpayer dollars. While the portfolio has grown at a record pace in recent years, during that time, SBA is implementing a rigorous, state-of-the art risk management program. By using industry data and technology, the Agency is replacing the old, primarily manual processes for reviewing lender performance with automated, quantitative risk-based methods to identify problems more effectively. This approach is improving oversight during a period of strong growth in the loan portfolio.

Office of Advocacy

Small businesses make up almost all businesses and produce most job, they are disproportionately impacted by government regulatory compliance burdens. The cost for small firms is approximately 45 percent higher than for medium and large firms. SBA's Office of Advocacy shows that firms with fewer than 20 employees incur an expense of $7,647 per year per employee to comply with regulatory requirements while medium and large firms face costs ranging from $5,411 to $5,282. Research also shows that compliance costs are increasing despite the presence of legislative and executive measures aimed at reducing regulatory burdens.

Top on the list of the Office of Advocacy's priority is reducing the regulatory burden on small businesses. The average yearly cost of major regulations is about 54% less than over the previous 20 years. These efforts, and small business participation in the development of regulatory proposals, have helped agencies filter out over $50 billion in unnecessary or duplicative costs contained in draft regulations. Nonetheless, more work needs to be done.

Highlights of the Budget Request

SBA's budget request represents an increase of 5 percent for FY 2008 above our enacted level in FY 2006 (excluding the Disaster program and Congressional Initiatives). The overall is for $814 million in total proposed Budget Authority. This includes $464 million in new Budget Authority and $329 million funded out of carryover balances from the $1.7 billion in supplemental funding received in FY 2006 for the Disaster Program.

These resources will support a total of $28 billion in lending authority for small business financing, which represents a 40 percent increase over business lending for FY 2006, through the 7(a), 504, and SBIC debentures programs. For its flagship 7(a) program, SBA requests $17.5 billion -- a 27 percent increase over the FY 2006 lending authority level. SBA also requests $7.5 billion for the 504 program, a 32 percent increase over loans made in FY 2006 – a record year for 504 lending. Finally, SBA requests an SBIC Debenture program of $3 billion.

In addition, this budget will support the following:

- A disaster loan volume of $1.064 billion (the Agency's ten-year average based upon FY 1996 – 2005 average activity, excluding the WTC disaster, adjusted for inflation). Obviously, since 2006 is not included, this does not include Hurricanes Katrina, Rita and Wilma, but does include the 2004 Florida hurricanes.

- Counseling and training to small business people through SBA's network of resources partners in Small Business Development Centers (SBDC), Service Corps of Retired Executives (SCORE), and Women's Business Centers.

- Assist federal agencies targeting a total of $84 billion in prime federal contracting dollars to be awarded to small businesses in FY 2008.

- Investing in the Agency's human capital through job skills training, mentoring programs, succession planning, proactive recruitment of highly qualified staff, and implementation of an automated personnel records system.

- Maintaining employee security through continued implementation of Presidential Homeland Security Directive #12 and support of major security improvements in the headquarters building.

- Continuing the process of implementing a loan operations system to replace the current outdated system.

- Enhancing SBIC oversight and recoveries.

- Providing a cost effective microloan program.

- Continuing efforts make it easier and faster for small businesses to comply with government regulations.

- Improving SBA products, services and delivery.

SBA's budget request will support 2,123 FTE through the Salaries and Expenses budget. This staffing level is an increase over both the FY 2006 level and the FY 2007 request. SBA has been able to reduce its budgetary requirements and staffing levels over recent years, but these increases are necessary to support critical oversight and portfolio management functions. Nevertheless, SBA has managed significant administrative savings while increasing financing, counseling, and government contracting opportunities for small businesses. SBA has been streamlining its operations and eliminating costly and inefficient programs, including the following examples:

- The Agency centralized its financial processing operations. As a result 7(a) loan liquidations cost approximately $18 million less in FY 2006 than FY 2003.

- The Agency created an alternative to the LowDoc program for 7(a). This was more than 20 times more expensive than SBAExpress ($4,771 per loan approved for LowDoc vs. $227 for SBAExpress). Lenders still have access to the higher 85 percent guarantee for smaller loans available through LowDoc but benefit from the improved process under other 7(a) products.

- SBA continues to seek opportunities to reduce rented space. The initiatives we have implemented from FY 2004 – 2006 resulted in $3.8 million in annual rent savings.

Disaster

In the summer of 2006, we initiated the Accelerated Disaster Response Initiative to identify and implement process improvements to help the Agency respond more rapidly in assisting small businesses and homeowners seeking financial assistance after a disaster. As a result, the Agency fundamentally reengineered its disaster loan processing operation to shorten response times, improve quality, and provide greater borrower support. Based on customer feedback, the Agency rolled out an "integrated team" model. Each team comprises 15-18 employees with legal, financial, and other required competencies to ensure timely, coordinated loan processing. Customers are assigned to a case manager on the integrated team so they have a single point of contact that is responsible for guiding them through the loan process and ensuring that SBA is responsive to their timing and other requirements.

Under the new model, case managers now proactively contact applicants to determine what impediments exist to closing loans and making disbursements. For example, SBA will assist borrowers in identifying local companies that provide title and recording services necessary for loan disbursements.

In order to complement SBA's reengineered process, the Agency has implemented numerous metrics to track application status and performance of employees. All applications are categorized by processing status and type of outstanding issue. This provides management with necessary information to identify problem areas and implement corrective actions. Further, productivity is monitored to identify areas that require management intervention. These strategies are the foundation for improved responsiveness to borrower needs. For example, the time needed for loan modifications that averaged more than 2 months in July, now averages 8 days, and continues to decline. In addition, the backlog of loans for modification has declined over 90 percent since July.

Additional organizational planning measures to improve SBA's disaster response include development of models to rapidly forecast loan volume and resource requirements (financial, human capital, and logistics) to better position the Agency to respond to large scale disasters when they strike. Moreover, SBA is nearing completion of a protocol to leverage its field network to improve local coordination and communication with citizens and other local authorities.

By 2008, SBA expects to implement an internet-based electronic loan application process to ensure that borrowers' required information is provided to assess loan eligibility. This complements SBA's investment in the disaster computer system that has been tested to support a four-fold increase in concurrent user capacity to 8,000 users. The agency is also evaluating options to access the private sector's skills and resources when dealing with catastrophic disaster events.

Compliant and Accountable Organization

With a guaranteed and direct loan portfolio of over $78 billion, SBA has a critical role as a steward of the taxpayers' dollars. While the portfolio has grown at a record pace in recent years, during that time, SBA is significantly advancing its risk management program. By using industry data and new technology, we have replaced the old, primarily manual processes for reviewing lender and loan performance with automated, quantitative risk-based methods. This approach enables SBA to prudently manage its growing loan and guaranty portfolio using more sophisticated models.

Listed below are the actions SBA has initiated and planned along with specific funding requests regarding its loan and investment portfolio.

- Investment in technology for the loan operations system upgrade of $4.1 million in S&E (to be complemented by about $4.2 million in disaster funding) for project management support, and to acquire and begin implementation of a system to replace our current loan information system for both regular loan programs and disaster loan servicing. Currently, the Agency's business loan operation runs on a Cobol-based system which limits technological advancement opportunities and security. The older system is also significantly more costly to maintain. SBA is making good progress on this major Agency-wide undertaking, which began in FY 2006, and is on track to be completed by 2012. Requested funds for FY 2008 will enable SBA to finalize the business vision, develop the project management plan, and final technical and functional requirements.

- Expanded SBIC Oversight with $1.5 million in S&E to continue the valuation contract, develops a liquidation plan, and implements an examination contract. This investment will help maximize recoveries on the $1.5 billion in the Office of Liquidation, and minimize losses on the $10.4 billion in outstanding leverage and commitments in the Office of Operations.

- Loan and Lender Monitoring System and Lender Reviews. SBA's Office of Lender Oversight (OLO) has a state of the art loan and lender monitoring system that incorporates credit history metrics for portfolio management. The credit information, combined with SBA lenders' current and historical performance, allows the Agency to assign risk ratings to lenders. Such ratings provide both an assessment and a monitoring tool for the most active SBA lenders, and are the primary basis by which lower volume lenders are evaluated. These lenders are under direct oversight of OLO rather than the program office. In addition, OLO is responsible for conducting on site lender reviews and examinations. Through FY 2006, the Agency has not had resources to conduct as many reviews as demanded. However, because the Agency recently received authority for reimbursement for the cost of these reviews, SBA plans to conduct additional reviews in FY 2008.

- Lender Portal. Lenders now have access to their risk ratings and performance metrics through our lender portal, making it transparent to lenders what they are rated on and how they compare with their peers. It allows lenders to address data quality issues to improve their risk ratings, which the Agency believes will ultimately result in significant improvements in data quality. The information is also available to SBA's district offices to help identify training opportunities for lenders.

- SBIC Liquidations. SBA currently oversees approximately $1.5 billion in SBIC leverage in its Office of Liquidation and $10.4 billion in leverage and commitments in its Office of Operations. Collecting on the large amount of leverage outstanding in the Office of Liquidation continues to be of great concern. The staff has developed a comprehensive strategy for liquidating this portfolio of investments. As part of this strategy, several pilot initiatives for liquidating SBIC assets are being pursued to ascertain the most cost efficient means of disposing of this significant portfolio. With $2.4 billion in estimated losses in the Participating Securities (PS) program, oversight on the $10.6 billion in outstanding leverage and commitments for those SBIC's (of which almost $7.8 billion pertains to the PS program) remains of high importance.

In addition, SBA is taking the lead, along with the Office of Management and Budget's Office of Federal Procurement Policy, to work with the contracting agencies to ensure accuracy and transparency of the data in the Federal Procurement Data System-Next Generation (FPDS-NG). The agencies are in the process of validating their FY 2005 data to identify the reasons for coding discrepancies and to correct any errors that occurred.

Also in the federal procurement data arena, in FY 2007 we expect that all agencies' subcontracting information will be available in the Electronic Subcontracting Reporting System.

Customer-Oriented

The following are highlights of SBA's plans to focus its products and services on underserved markets:

- Expansion of the Community Express pilot. This pilot was designed to reach underserved markets and combines both capital and technical assistance to increase the viability of the businesses it serves. The Agency is working to broaden lender participation in the product and will seek involvement from its counseling and training partners: SBDCs, SCORE, and Women's Business Centers.

- Expansion of the Urban Entrepreneur Partnership. The Urban Entrepreneurial Partnership (UEP) initiative is a community-based referral program located in an urban setting. The Agency is working to expand the initiative to additional cities that will create a local network of small business resource providers serving urban and inner-city communities (*UEP Network*), as initially outlined by the President in a presentation to the National Urban League in 2004.

- Expansion of Alternative Work Sites. One way the Agency has made itself more accessible to small business is to locate certain district office staff away from single urban centers to locations closer to our customers. Currently, there are 22 such alternative work sites in operation. Another 2 are planned by the end of FY 2007. SBA is seeking $100,000 to set up 7 additional sites in FY 2008.

- Business Process Reengineering for the Office of Government Contracting and Business Development (GCBD). SBA's request includes $500,000 to examine how to best serve the 8(a), HUBZone, and Small Disadvantaged Business communities as well as women and veterans. We recognize the Agency can improve the management of these programs, particularly the 8(a) program, and will use these resources to determine how to best serve them – whether through staff realignment and training, or technology improvements.

- New Markets Tax Credit Pilot. In October, the Agency launched the New Markets Tax Credit Pilot Loan Program to provide financial assistance to small businesses in economically distressed urban and rural areas, or "New Markets." The pilot program allows certain Community Development Entities to purchase up to 90 percent of the gross loan amount of SBAExpress or Community Express 7(a) loans up to $150,000 made to NMTC "qualified" businesses in low-income communities. These new loans are guaranteed by the SBA. By leveraging the SBA's resources with the Treasury's NMTC program, the pilot will provide additional access to loans and technical assistance to both start-up and existing small businesses in New Markets. Under the program, CommunityExpress lenders will assist CDEs to provide small business borrowers with a package of services including mentoring, coaching and counseling.

- Zero Subsidy Microloan Program. Small business loans under $35,000 provide a critical level of capital to certain sectors in our economy, many of which are in underserved communities. Our regular 7(a) program reaches many members of this community. In FY 2006, 42,730 loans, representing 44 percent of all 7(a) loans, were made at the microloan funding level ($35,000 or less). However, additional businesses in target markets can be reached through non-bank microlenders.

The Microloan program as currently structured is not cost efficient. In FY 2006 it cost 85 cents to the government for each dollar loaned to a Microloan intermediary. Therefore, the Agency is proposing a zero subsidy microloan program. By raising the very preferential rate at which intermediaries borrow from 3.77 percent (below the government's cost of funds) in FY 2008 to 5.99 percent (SBA's all-in cost), the Agency can eliminate the subsidy cost of this program and greatly expand funding for microloan intermediaries. Intermediaries will continue to receive a better than market rate of interest on loans and SBA will be able to offer loans to any intermediary eligible.

Furthermore, SBA is proposing that rather than asking for Microloan Technical Assistance funding, SBA should leverage the skills of technical assistance resource partners, including the Small Business Development Centers and Women's Business Centers located throughout the country, to train and counsel microborrowers. This has the potential of tripling the number of outlets providing training to micro-entrepreneurs for microenterprise training and will save almost $13 million in FY 2008.

- Expanding the Veterans' Outreach Program. Expanding the Veterans' Outreach Program. The SBA requests an additional $500,000 for the Office of Veterans' Business Development (OVBD) in FY 2008. With the Nation's current engagement in Iraq and its presence in Afghanistan, the number of veterans returning from active duty will continue to increase. SBA's Office of Veterans Business Development (OVBD) plans to increase its efforts to educate and provide programs and services to veterans and active duty personnel in three major areas: access to capital, management and technical assistance, and procurement assistance programs through SBA, other government agencies, and the private sector. The Agency will accomplish this through existing loan programs, the disabled-veteran-owned business government contracting program, a redesigned website populated with a broad range of programs and services available to veterans, the development of training and mentoring programs for veterans by veterans, and funding District Offices to grow veteran-owned business capacity.

Other customer-focused plans include:

- Helping businesses with compliance through the 24/7 anywhere accessible Business Gateway. SBA requests $4.8 million in reimbursable budget authority for the E-Gov initiative for which SBA is the managing partner and $425,000 in S&E for the project management office (SBA's contribution as managing partner). Business Gateway will provide the Nation's businesses with a single, internet-based access point to government services. It will simplify and improve businesses' ability to locate and submit government forms and reduce the time and effort needed to comply with government regulations. Each year, Business Gateway will increase the time saved by business accessing information and forms by 50,000 hours over FY 2006.

- Increase access to Federal procurement opportunities by adding 9 new Procurement Center Representatives in 2007 and 2008. With total Federal contract dollars projected to increase by 56 percent over FY 2001, the small business share is expected to increase to a total of $85 billion. SBA's responsibility is to ensure small business retains access to these opportunities. In addition, SBA plans to ensure that PCRs are fully devoted to examining contract actions instead of performing other activities.

SBA will also continue the development of the Electronic Procurement Center Representative System. During FY 2006, SBA began working on an Electronic Procurement Center Representative (EPCR) System to allow PCRs more timely information about contracting opportunities for small business. It is also working with the Department of Defense to integrate EPCR functional requirements with the DOD's capture of additional pre-solicitation information, and explored possible expansion of existing shared systems in the Integrated Acquisition Environment (IAE). The Agency will prepare a business case and will pursue systems design and development in FY 2008.

SBA has put into production automated systems for 8(a), Small Disadvantaged Businesses, and HUBZone applications, and will soon finalize the electronic review and certification processes.

- Improve procurement scorecard accountability. SBA is preparing several actions to improve accountability in the procurement scorecard. By including training by contracting officers on the Federal Acquisition Regulation (FAR) 19 and small business contracting strategies to count as part of the agency's achievement status; helping agency contracting officers become more familiar with small business contracting; and to help an agency meet its procurement scorecard goals, developing a small business contracting course for the Federal Acquisition University. Preparing a draft rule directing agencies not to award or continue performance on small business set-aside contracts with companies that have been determined to be other than small. In the event the winning firm is determined to be other than small the contract should be either re-awarded or re-competed. This would mirror recent GAO Board of Contract Appeals decisions.

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