THE BUDGET OUTLOOK FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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THE BUDGET OUTLOOK FOR THE SMALL BUSINESS ADMINISTRATION

WEDNESDAY, APRIL 24, 2013

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

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

Present: Representatives Graves, Chabot, Luetkemeyer, Mulvaney, Herrera Beutler, Huelskamp, Schweikert, Bentivolio, Collins, Velázquez, Schrader, Clarke, Chu, Payne, Meng, Schneider, Barber, Kuster, and Murphy.

Chairman GRAVES. We will go ahead and bring the hearing to order. The ranking member is detained and we have permission from her to go ahead and get started this afternoon. We do have votes at 2:30, so we should be in pretty good shape when it comes to that.

Good afternoon to everybody. At today's hearing we are going to hear about the President's proposed Fiscal Year 2014 Budget for the Small Business Administration, and I would like to welcome Administrator Karen Mills back to the Committee; obviously, for probably her last testimony, unfortunately.

Small business owners have to balance their books every single year, and if necessary that includes eliminating unnecessary costs. In contrast and despite a federal deficit of $16 trillion, the SBA, in its budget proposal, makes no effort to eliminate wasteful and overlapping programs that would contribute to reducing that federal deficit.

Given the deficit, you might think that the SBA would find ways to cut back. Instead, the agency has requested nearly $57 million in new funding for new entrepreneurial programs.

And by contrast, the SBA only asked for $4 million to increase the number of procurement center and commercial marketing representatives. Last year, this Committee moved legislation, ultimately signed into law, which enhances the authority and responsibilities of those SBA employees. Given these new responsibilities, as well as their long track record of helping small businesses get federal contracting dollars and creating jobs, it makes sense for the agency to make a more significant investment than the 34 new hires offered in the budget.

The agency has initiatives in the budget to increase the availability of loans to small businesses—certainly a very worthwhile goal. At the same time, the SBA is reducing resources that would be devoted to the Loan Management Accounting System. This system that tracks the agency's $100 billion loan portfolio is an information technology project the deputy administrator stated was a top priority of the agency. Given the agency's management problems in lender oversight, this proposal increases loans and cuts back on loan management tools and puts taxpayers at a little bit greater risk.

To summarize, the SBA offers a budget that is long on its priorities but seriously underfunds the proven programs that Congress has designed and ignores some longstanding management deficits.

With that, we will move past the ranking member's statement. I am sure she has got a statement. Okay. And we will just go ahead and move to Administrator Mills. And again, thank you for being here today.

STATEMENT OF KAREN MILLS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION.

Ms. MILLS. Well, thank you very much, Chairman Graves, and Ranking Member Velázquez, and the members of the Committee. I am very pleased to be testifying before you today.

I want to start by thanking this Committee for its ongoing support of the SBA and America's 28 million small businesses and entrepreneurs.

The president's 2014 budget is focused on job creation and accelerating our economic growth.

We know where American jobs come from. Half of all working Americans either own or work for a small business, and these businesses create two out of every three net new private sector jobs in the United States.

The 2014 budget makes strategic investments in America's small business. It fills the remaining gaps in the market, particularly for small dollar loans, while supporting proven programs that fuel job creation, new business formation, and American innovation. These are critical to a full and robust economic recovery.

And it is important to note that due to decreased subsidy costs for our 7(a) loan program, the SBA's 2014 budget reflects a savings of $109 million from our 2012 budget.

Four years ago, when I first appeared before this Committee, small businesses were struggling in the face of one of the worst economic environments since the Great Depression. At the SBA, we rolled up our sleeves and we went to work. We eliminated fees, streamlined programs, and in some cases took more than 100 pages of paperwork out of loan products. The results have been significant, including two record years in 2011 and 2012 of delivering over 30 billion dollars in loan guarantees.

Our 2014 budget builds on these efforts. Three key initiatives are: the elimination of fees for borrowers and lenders for all 7(a) loans under $150,000; an extension of the 504 refinance program; and SBA ONE, which creates a single application for all 7(a) loans and allows borrowers to more easily complete lending forms.

The 2014 budget also invests in SBA's powerful counseling and mentoring network. These investments focus on the types of small businesses that are best positioned for job creation—expanding firms and startups. Expanding firms created 8.7 million jobs between March 2011 and March 2012.

The budget requests $40 million for an intensive business leadership program that provides the skills training to help more of these established business owners successfully scale their operations and create more jobs.

The program is built as a private-public partnership that allows us to maximize its reach.

The other area poised for growth is startups. These businesses punch above their weight when it comes to job creation.

At the SBA, we have had our third consecutive record-breaking year for our Small Business Investment Company program. And the 2014 budget allows us to further support startups through targeted tools such as growth accelerators and clusters.

We also know that for both established firms and startups, the opportunity to sell to the federal government can be a game changer.

As a result of our efforts, in the last three years of reporting, small businesses have accessed $32 billion more in contracts than the previous three years, even as overall contract spending decreased during those years.

We continue to take a zero tolerance stand on fraud, waste, and abuse in federal contracting to make sure that small businesses are the ones getting these contracts, and we have instituted programs like QuickPay to make sure they get paid more quickly.

Our 2014 budget will continue this emphasis on contracting by putting more resources known as Procurement Center Representatives in the field. Our research shows that 32 new PCRs proposed in the budget can influence approximately $7 billion in small business contracting.

Today, thanks to agency-wide efforts and the support of Congress, small businesses are interacting with a different SBA, one that is more customer-focused, more data driven, and more transparent.

On a personal note, this is likely the last time I will be testifying before this Committee. It has been an honor and a privilege to work with you over the past four years. And once again, I would like to say thank you.

Chairman GRAVES. Thank you very much. And we are going to move right over to questions now.

Mr. Bentivolio, first.

Mr. BENTIVOLIO. Thank you very much, Mr. Chairman.

Ms. Mills, thank you for your service and your leadership, and I thank everyone at the Small Business Administration for their hard work towards getting our economy rolling again. I apologize that I only have a few minutes here to ask what appear to be ongoing issues with the Small Business Administration, not about what is working well. And you can submit your responses in writing in 14 calendar days or less. And I will give my questions after I read them to the clerk and they will give you a copy.

First question. How many times has the SBA overhauled the design and links on its website in the past four years? What was the total cost of these overhauls?

Two, how much did the SBA spend to create the RFP-EZ website and how much does the SBA spend to maintain the website?

And according to the budget justification, SBA ONE the agency's new initiative to improve the electronic application process and its loan programs will use commercial off-the-shelf software. How will the SBA integrate that with its COBOL-based loan management accounting system?

The fourth question, the SBA budget for fiscal year 2014 reduces 2 million from the budget to modernize the Loan Management Accounting System but requests 7 million for SBA1. Do you think it is wise to take on new information technology initiatives when the LMAS program is still based on COBAL?

Thank you, and I appreciate any elaboration you can provide in the written response and to hear about COBAL for the first time in decades since the '70s, I think. That was a bit of a shock to me. And I think it says a lot about the information technology problems at the SBA. Thank you very much, and I yield back.

Chairman GRAVES. All right. We will go to Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. And thank you for being here.

You outlined in your opening statement some of the new programs that you are laying out—the entrepreneurship education, the growth accelerators. We had a presentation by GAO and I think we have probably all read the studies on some of the duplications, some of the overlap that we have in some of these programs. I think there were 52 that they outlined. Just curious on the reasoning for these two new programs when we have so many already out there and why not a focus on improving what we have?

Ms. MILLS. Thank you. As you know, our entrepreneurial development programs are a key part of the SBA. And across the entire SBA resource partner network we have made some important accomplishments in order to what we call link, leverage, and align those programs on the ground to make sure we are giving taxpayers the best bang for the buck in eliminating any duplication. Progress on that has been substantial, and with that success we have noticed that there are some gaps in the market.

As I explained earlier, this budget is focused on job creation. There are two major sources of job creation—expansion of existing firms that have new opportunities, perhaps in government contracting, perhaps in exports. And those firms need to be able to have the skills to take advantage of those opportunities. Our Intensive Entrepreneurial Education program proposed here is like a mini MBA. It is missing in the marketplace but it will be delivered through the existing network that is out there. It does not——

Mr. MURPHY. And you said it is a P3; correct?

Ms. MILLS. Pardon?

Mr. MURPHY. You said it is a public-private partnership?

Ms. MILLS. And it is a public-private partnership—which is what we generally do in order to give taxpayers the best bang for their buck.

Mr. MURPHY. And was it based on something that we have seen proven to work on, one of these already existing programs, just expanding it?

Ms. MILLS. Yes. It is based on proven programs that work. Kauffman FastTrac, Goldman Sachs 10,000 Small Businesses, the SBA's E200 all share a nine-month intensive curriculum. We are pulling best practices from all of these areas and there are metrics behind each one.

Mr. MURPHY. What will your plans be to track them and their performance?

Ms. MILLS. Well, we are a metrics-driven organization and we are building at every stage the metrics that involve what is the success rate of small business that graduate. We already tracked that for some of our existing programs, and we know that after this curriculum some small businesses increase their sales. One I talked to last week from Baltimore said they doubled their sales in the first year out. In addition, they create more jobs, and we also measure how much additional financing they get.

Mr. MURPHY. You said some do that. Are you confident over 50 percent or so?

Ms. MILLS. Yes. The metrics are very good. We would be happy to share them with you.

Mr. MURPHY. Okay. I would love to see that.

One last question. It looks like you are cutting the SBDC and SCORE 9 and 7 percent respectively. How are you cutting that? What are you going at there? Is there some waste and fraud you have identified or is it just simply funding?

Ms. MILLS. Well, first of all, this is not an either/or proposal; this is a both/and. The SBDCs are an integral part of delivering the intensive entrepreneurial experience. So the funding from that will flow down to those who deliver the programs which will be our resource partners. So this is a way to measure outcomes, make sure there is consistency, deliver best practices, fill a gap in the marketplace, and still use our existing resource partners to deliver the program.

Mr. MURPHY. Great. All right. Thank you.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. Thank you, Ms. Mills.

Let us stay on this emerging leaders program for a little bit because I am a little confused. You talked about the metrics that you are using. I think you mentioned that sales and jobs would be some of those metrics, which makes perfect sense. But how is that different from the existing programs that you already have? How is it different—those metrics different from the Kauffman FastTrac program and the next level program, for example? Are those not also designed to help small businesses increase sales and employ more people?

Ms. MILLS. This Intensive Entrepreneurship Program is the Kauffman FastTrac program, the Goldman Sachs 10,000 Small Business, and the current E200 program pulled together with best practices. These programs differ from the mentoring.

Mr. MULVANEY. Let me cut you off. And I am sorry to cut you off, but are the other ones going away if these are pulled together?

Ms. MILLS. Right now these other programs do not exist across many of the smaller marketplaces, and we have worked with those partners who do not have the capacity to serve, you know, rural areas. We are in 27 cities now. Goldman Sachs is in nine, and we want to make sure that we reach more entrepreneurs in more of these places that do not have access to an intensive entrepreneurship experience, like a mini MBA.

Mr. MULVANEY. And I understand that, and I represent a rural district. I guess my question is if we are having difficulty providing those services to the rural areas, for example, under the existing programs, why do we think our experience will be different with this new program?

Ms. MILLS. The existing programs, such as the Small Business Development Centers and SCORE, provide absolutely fantastic services, but they are different. One of the things we do with SCORE is we do one-on-one mentoring. In our Small Business Development Centers we have an extraordinary record of long-term client counseling with very, very good results. But there is still a gap for that medium-size business in the small category—it is still a small business.

Mr. MULVANEY. Sure.

Ms. MILLS. That needs to grow 20 employees. Needs to take its sales up to the next level. The gap is that the entrepreneur does not have the skills to take that business to the next level. This is a nine-month program which meets every two weeks. It creates kind of a mini forum, like a YPO forum among the CEOs that are in that forum. They create a specific business plan for their own company and then get prepared to execute it. They learn financial planning and analysis. They find out where they are making their money. And I would invite you to come to one of the graduations or one of the classes because you will hear specifically how they could not have grown their businesses without this type of program. These very often were clients of SCORE or of our Small Business Development Center, but they had an opportunity to dramatically change and improve their business and grow. They needed a more intensive experience.

Mr. MULVANEY. I am a big fan of the SBDCs. In fact, I think we have been to see some with some of my fellow colleagues across the aisle all over the country. You are reducing funding for those in this budget request though and that is where I am caught up. I hear what you are saying and I have got issues about whether or not we are going well beyond your authority in doing this. Are we actually getting in the business school business? You know, the SBDCs make sense to me. It is a place I can go in as a small business person to get mentored and that is great. I see value in that and certainly the market does not necessarily always provide that, but the market provides exactly what you are talking about.

Let us stay on the first topic, which is tell me about the $8 million reduction in their quest for SBDCs, which is how is that going to affect their service?

Ms. MILLS. Well, first I want to make sure that this Committee understands that all of SBAs programs are conducted under the authority as provided by Congress, so we do not have any unauthorized programs. And this program is not a new bricks and mortar program. It is conducted through our on-the-ground resources, including our Small Business Development Centers. So these funds will find their way to those Small Business Development Centers who participate, as most of them do, in implementing these programs in their cities.

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

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman.

First, I want to thank you very much, Administrator Mills, for your service. You have been a breath of fresh air in general to this Committee, and frankly, to the agency itself. I think there is a newfound sense of mission and purpose and frankly, there is a sheriff in town to watch some of these programs that we do have. You have set a new standard. I think your background in small business as an entrepreneur yourself and venture capitalist, you understand how this should be happening. So I appreciate that. I am going to miss you personally. So good luck moving forward.

Having said that, this would not be a Small Business hearing if we did not talk about some of the programs that we would want to do maybe slightly differently than you are suggesting. I think we are all hearing about the SBDC issue. I think it is important for the Committee to understand that under your tutelage we have shifted a little bit in terms of priorities, maybe not necessarily in terms of programs, but you have been focused a lot on the medium-sized small businesses, if you will, where I think we have had previous testimony that maybe there are a lot of jobs created. I think your contention has been that is the biggest bang for the buck. But there are many of us that are really worried about the recession; a lot of new people starting their own very small business. So the reductions to SBDCs are probably unacceptable to a lot of us and we hope to find a way to work with you and the administration to maybe ameliorate those and still be able to support those medium-size small businesses going forward.

So to get to a question here would be you are also looking at decreasing the fees for folks trying to go for $150,000 loans. Question one, you know, how do we know that is going to guarantee us some increased uptake by small businesses? I like the idea of more small businesses being able to compete because I am a small little veterinary clinic? I never had a $200,000 loan. I was taking out, you know, $40-, $50-, maybe $100,000 at a time. So I am curious, if you do not know, what are the metrics you are going to gauge the success of the program by?

Ms. MILLS. Well, first of all, thank you very much for your kind words. And I want to make sure you understand in the Small Business Development Centers, it is not an either/or; it is a both/and.

Let me address your question on the 150,000—the loans below $150,000. As you know, the SBA just finished two record years at $30 billion, but the loans below $150,000 have not recovered. And the numbers are quite dramatic. You know, those loans dropped by two-thirds in 2009 and then they stayed flat. They have not come back up. So we need to address getting more loans into the hands of the small businesses in these areas. They are the underserved areas, they are the smaller businesses, they are the earlier stage businesses, and we know we have a proven way to do this because it worked during the Recovery Act. When we eliminated fees during the Recovery Act, we were able significantly increase both the supply and the demand of loans. And we have very good metrics to measure this and we will be tracking the number of loans, the dollars of loans, and the geography of the loans.

Mr. SCHRADER. Okay. Thank you.

The second question beyond——

Ms. VELÁZQUEZ. Will the gentleman yield?

Mr. SCHRADER. Yes, certainly. I yield to the chair.

Ms. VELÁZQUEZ. Let me just take one second——

Ms. MILLS. Hello, Congressman. Yes.

Ms. VELÁZQUEZ.—one second to really thank you on behalf of the American people and small business for your service. But I just would like to ask you, was it lowering the fee that increased the number of loans or was that coupled with the guaranty?

Ms. MILLS. It appears, as we have looked back on the lowering of the fees, that the lowering of the fees was an absolutely critical part of increasing demand. Back in the credit crunch when banks were concerned about their capital, the increased guaranty was also important but we know that the fees were a really big drive.

Ms. VELÁZQUEZ. But we did notice it dropped in the volume when the guarantee expired.

Ms. MILLS. Well, we will get back to you on the exact numbers on that.

Mr. SCHRADER. Thank you, Madam Chair.

Ms. VELÁZQUEZ. Thank you.

Mr. SCHRADER. Good clarification.

The other program that you made some great strides in was the HUBZone program. There are a lot of people taking advantage of that and I see the funding for that is decreasing in your budget, concerned about how that might affect the outcomes that you have been very successful with I think so far. So could you comment on why we are decreasing that in that area where there has been rampant fraud and abuse?

Ms. MILLS. Well, first of all, we have had a really intense effort on fraud, waste, and abuse. We aggressively went after large businesses pretending to be small businesses, people who were saying they were in a HUBZone but were not in a HUBZone. And we have largely gone through that process of——

Mr. SCHRADER. I am just worried about going forward.

Ms. MILLS.—monitoring. I am not aware that we are reducing our efforts in that area in any way, so we will be happy to talk further about your concern.

Mr. SCHRADER. All right. Thank you. And I yield back, Mr. Chair.

Chairman GRAVES. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. Administrator Mills, we chatted a little bit. Maybe I just would share with this group a little that 31 years ago I started my first company with an SBA loan, and it is safe to say without that loan I would never have started that company or got involved with the 20 or so companies subsequent.

But maybe again for the Committee's edification, I have been involved for 12 years with something I think very similar to your intensive entrepreneurship, leadership training, and I have been a member of YPO for 25 years. What I have found I think is what you are talking about—the gap of the person with 25, 30, 40 employees. You will get a bigger bang for your buck if you can get that person over the hurdle of understanding what his variable margin is, how does he grow. Then the true startup. We need both, but the startup is one or two employees and there is a plateau and four or five years later they have still got just a handful of employees. If you want the big push, it is the company with 30 or 40 employees that wants to go to 50 or 60, does not know how to get there, and actually does.

Now, the program I have been involved in with the University of Buffalo, The Center for Entrepreneurial Leadership, and 40 people took place in that. It was a nine-month program like you are talking about. They met once a month, had a mentor assigned to them, but then they developed a business plan with the class. They would present, get their business plan ripped apart from one end to the other, just as a learning thing, but it is like a mini MBA. We charged $5,000 per student at the University of Buffalo.

Now, in partnering, is there any thought that the SBA would partner with someone like universities on something like this? Because it is a very worthwhile program.

Ms. MILLS. Yes. Absolutely. The model is to partner very often with community colleges and other activity that also exists in that area.

Mr. COLLINS. Now, we charge $5,000 a person to go through their program. Would the SBA be subsidizing some part of that or——

Ms. MILLS. Yes.

Mr. COLLINS. How would the company president who is—he is signing up to go through an intensive MBA, if you will—does this help lower that fee in some way?

Ms. MILLS. Yes. This would lower or eliminate the fee. And the reason is that our job is to serve gaps in the market, where you have a terrific company but they may not be in the position to make that investment or they may not be in a geography where that investment exists.

Mr. COLLINS. And I do think, too, that would help. I have been on the recruiting side of recruiting businesses in, because we have 40 businesses a year that go through their program—20 on Tuesday night and 20 on Thursday night. Sometimes the $5,000, believe it or not, when cash is king, a lot of times the companies that need to go through that are the ones that do not have the cash, and they are trying to convince either their board or their partner. Sometimes it is the second generation that wants to grow the company and that second generation guy has to convince the father to go spend $5,000 to grow the business and sometimes it is that dialogue. So I do agree.

Just the other comment I would make is, again, having started a company, paid the SBA fee at the end of which I was out of money so I was broke the day we closed. Cash is king. Sometimes that small fee, somebody would say how much is that small fee? It is just enough to keep the company from moving forward because the banks are bad enough. But, you know, I agree with you that anything you can do to reduce the fee, especially some of these startup loans is something needed.

So thank you for your service. The SBA will always have a soft spot in my heart since that is how I started my first company and certainly as your replacement comes in I think on this Committee all of us would just like to be an integral part of your decision-making on some of these programs. Because from what I am sensing is sometimes the communication has not been what it could have been. You are off doing your thing and I do not think this Committee feels they are engaged. Sometimes the best way is just engage us more and perhaps we will have more pleasant hearings.

Thank you.

Chairman GRAVES. Ms. Chu.

Ms. CHU. I, too, want to thank you, Administrator Mills, for your service. And I wanted to ask about the 504 loan refinance program. I was glad to see that in the president's budget for fiscal year 2014 the SBA has requested that the Congress reauthorize this program. I know that bankers and small business owners in my area have given the program very, very positive reviews. And I have introduced the Creed Act, the Commercial Real Estate and Economic Development Act, which would extend this program.

Can you share with the Committee the purpose of the 504 debt financing mechanism and how it helps small businesses and also can you share with us the performance of the existing debt refinancing portfolio and how you would characterize that performance.

Ms. MILLS. The 504 refi program, as you know, ended last September when the Small Business Jobs Act expired. But the program was extremely successful. It had—2,700 loans valued over $2.5 billion. And we had 200 banks participating in the program. We know that demand still exists in the marketplace because interest rates are low and many small businesses have equity value in their real estate that they want to unlock by refinancing their debt. But conventional financing is not available. The 504 Refi Program allows them to refinance their debt and then take that money and use it for their equity and use it in their business.

We know that on the last day of the program—in 2012, we had over 400 projects pending and about half a billion dollars that did not get funded. And we do know that this program will operate in the future at zero subsidy based on the fact that we can charge an adjusted fee at the agency to cover projected costs.

Ms. CHU. And the performance of the portfolio?

Ms. MILLS. Yes. The portfolio is very, very early. It has had very few, almost no defaults, but it is very early and it is only a year out.

Ms. CHU. So just to be clear, the portfolio of these loans have not cost the taxpayers any money?

Ms. MILLS. At this moment the portfolio is very new, so it has not really, you know, matured or come to fruition, so it has not.

Ms. CHU. Very good.

I wanted to follow up on the SBA 7(a) loan guarantee program. And I was interested in your effort to increase these loans of smaller size, the 7(a) loan program. This program has been very good for small businesses to obtain financing when they have not been able to find other sufficient credit from normal lending channels. Now, you have proposed waiving fees. And although this could save borrowers a couple of hundred dollars, there would be more significant savings for the very small businesses if there was a lower interest rate on these smaller loans. So I would like to know in what ways could the SBA reduce interest rates on these smaller-size loans versus lowering the fees.

Ms. MILLS. The SBA has the authority to set fees, but the interest rates are set by the banks. So these are public-private partnerships. Banks see the loans. They determine whether they can do them without a guarantee. If they determine that they would not be able to do it and they ask for an SBA guarantee, then it will be at the rate that the bank sets.

Ms. CHU. Well, I would also like to add my voice to the chorus of people that are very concerned about the decrease in the SBDC funding. I am very concerned because it looks like it could amount to a reduction of $10 million and yet there are some proposals for pilot programs. For instance, one called Operation Boots to Businesses. It seems that it is similar to those services provided by the Veteran Business Outreach Centers and the Small Business Development Centers. So could you please explain to me how it would be different from that? And also what effect would there be for the current SBDCs in terms of closings, reduction in hours, or employee layoffs.

Ms. MILLS. First, the Boots to Business program is completely different from the services provided by the Veterans Centers. Boots to Business is targeted at our returning veterans. It is service members, while they are still in the service, at their bases in the Marines, in the Army, in the Air Force, as part of the TAPS program—which is the Transition Assistance Program—to make sure these returning service members are able to have a path forward when they come back after giving this country their service. Many of them want to go back to school. Many of them want to get a job. But some of them want to go back to an entrepreneurial business or start an entrepreneurial business. And that track is covered by the SBA under Boots to Business. It will be delivered by our Small Business Development Centers. So the funding in the Boots to Business line will flow through to those Small Business Development Centers. That is why this does not constitute a cut in Small Business Development Centers. What we have one is an integrated resource partner platform that collaborates on the ground in absolutely extraordinary ways, and with discussion with them—in fact, we are piloting this now in a number of bases with the Marines and the Navy and the Army. The Small Business Development Centers are very excited to serve our veterans in this way, and with this funding they will receive cash flow to pay for their efforts.

Ms. CHU. Thank you. I yield back.

Chairman GRAVES. Ms. Herrera Beutler.

Ms. HERRERA BEUTLER. Thank you, Mr. Chairman. And thank you for joining us again, Director Mills.

I wanted to ask two questions. Well, two different issues. One is about HUBZones, but first I want to ask about the Natural Resources Sales Assistance program. I have a number of smaller timber producers in my region who have actually specifically come to me about this with concern. So three parts to that question.

I want to know if the SBA is engaging with the Forest Service and ensuring that there will be a set aside for small timber mills. Also, is the SBA ensuring that the Forest Service is complying with the terms of the interagency agreement? I asked the IG about this in a different hearing a few weeks ago and I could not get an answer. And then lastly, I have heard from some constituents that the SBA has been using firewood and wild mushroom sales to fulfill the requirements for the timber set aside. Please tell me that is not true.

Ms. MILLS. Well, first of all, the Natural Resource Sales Assistance program is something the SBA is fully committed to. And as you clearly know, it is a program that allows a set aside for small timber mills. And having been to small timber mills actually in Arkansas, not in your area, and had many conversations with them, I want to reassure you that we are working very closely with the Department of Agriculture and the Forest Service on this issue. We had many conversations with the—I will get back to you on the firewood and wild mushroom issues and whether they qualify and are eligible.

Ms. HERRERA BEUTLER. Well, I am pretty sure they do not qualify under the intent of Congress, which you were talking about the authority we have granted. It was not for timber sales or, excuse me, firewood sales or wild mushroom sales; it is for timber set asides for these small guys. And we will provide you with the specific information about these cases. But it is pretty much Washington statewide. I mean, mills from all over. So it is an area of concern that we would like someone to look specifically in on.

Ms. MILLS. Yes. So we will absolutely follow up.

Ms. HERRERA BEUTLER. Great. And then the other question was about HUBZones, specifically. And I know people are talking about the dollar amounts. The numbers that I have for fiscal year 2012—actually, they are SBA numbers—approximately 1,175 HUBZone applications were withdrawn. And that is nearly twice the amount that were approved and nearly four times as many as were declined. And I know you talked about cracking down, so I assume that is part of that number. I would be surprised if that is that much of that number, but I would like to hear your thoughts on that because I have three instances in a HUBZone that we keep coming back to you and each time you help, but I am not sure this is how this is supposed to work.

One of them was—one of my business owners—and this is the same area—was out of town. So basically, they turn in the information, they wait five weeks, and then they get someone, a specialist calls them and says you have 10 days to get us supplemental information. Well, in one instance, a guy is out of town on vacation, so he has to withdraw and start over. On another instance the business owner was only given 72 hours to provide the supplemental information—had to withdraw and start over. And just yesterday the HUBZone application, it happened again. Somebody turned in information in February and has not heard back.

I appreciate the help with these individual instances, but I am starting to worry what is going on. Maybe, I do not know if it is the region but I was hoping maybe you could speak to at least some of the numbers. I am wondering if the numbers have something to do with that. I mean, I do not know if it is fair to say we are withdrawing and you get to—are they withdrawing because there is a frustration because something is not being timely? Or is this isolated?

Ms. MILLS. Well, first of all, we have cracked down on eligibility. And this was a very important push. That said, we would very much like to follow up on any of these specific instances. We want to make sure that our applicants have every opportunity to comply and to join the program. We are looking for great HUBZone companies to be part of the program, so we will do everything we can to service them.

Ms. HERRERA BEUTLER. Well, we will provide you the information again. Hopefully I do not have to every time come to you with one of these because obviously I do not want to waste your time. So thank you.

Thank you, Mr. Chairman. I yield back my zero seconds.

Chairman GRAVES. Mr. Schneider.

Mr. SCHNEIDER. Thank you. And thank you, Administrator Mills, for your service. As a new member, I am sorry we will not have the chance to work together, but knowing that small businesses do represent half the employment and two-thirds of new job creation, it is critical that we continue to foster the spirit of enterprise and pursue the entrepreneurial opportunities in this country to get the economy growing.

I represent Illinois. It is the northern suburbs of Chicago. We have suffered extensively from flooding throughout the region in the last several days. Some of the areas that I visited this past weekend to see the impact, it is not just hopes but it is also businesses that are underwater and are going to have a hard time picking up in some of the resort areas as the season starts. They are losing their opportunities in a very limited window to achieve what they need to this year. And at the same time we are having the impact obviously of sequester.

So my initial question is what impact do you see sequester having as we help these businesses who are just starting to assess the impact of the floods on their future?

Ms. MILLS. Well, we are absolutely ready to come aid in this disaster. The process is that the governor would ask for a disaster declaration and we would declare it and we would be on the ground immediately thereafter. We have a 2,000 person ready reserve. We are finishing a really intensive set of operations around Hurricane Sandy, of course, but we are prepared and ready to come in. We know flood season, tornado season, hurricane season is coming. We are ready to serve.

Mr. SCHNEIDER. Will the sequester limit your ability? I mean, these businesses, the families are just now seeing the waters recede. They are receding slowly. Until we have the full assessment of the impact of the damage, the governor cannot make his request. But to them it has already been a long time and I want to make sure once we do make the request we get people there as soon as possible.

Ms. MILLS. We will be able to be there without a problem. We did take sequester cuts but we do have a force ready to come in.

Mr. SCHNEIDER. Okay. My second question, you talked about it not being either/or but both/and. And I want to give you the opportunity—it is critical that we expand and understand the priorities for small businesses. I ran a 10-person company with a partner. I had the opportunity to be part of an advisory group through a group then called Tech, now Vistage. And that was an ongoing relationship that helped me understand and deal with some of the challenges we faced over the years I ran that business. As you are doing this both/and and working with startups, working with growing companies, how are you going to place your priorities? How do we make sure that we are not shortchanging one versus the other?

Ms. MILLS. Thank you for bringing us back to the startup community, because they are equally strong in job creation. And in fact, in recent years the startup rate in the United States has gone down quite a bit. And one of the important requests in this budget is a program for jobs, for small business startup accelerators. All across this country, accelerators are spring up. They are kind of the evolution of incubators where small businesses can get access to mentors and networks and capital. We have convened accelerators all around the country. We are working in a competitive fashion to accelerate the access to capital, the access to networks for these small entrepreneurial startups. I was in one in Austin a few weeks ago. We are seeing them come up all around the country. What we would like to do is catalyze best practices and catalyze the availability of these in places outside of traditional startup areas like Silicon Valley where they might not yet be operating at full force.

Mr. SCHNEIDER. I think it is crucial that you have the accelerators that we put in place, multipliers, amplifiers, accelerators for businesses to start and grow. For me I know throughout my career, my successes have all been related to having mentors along the way. So I want to make sure we do not cut off that interpersonal relationship so we have, whether it is SCORE or other programs, mentors to help these businesses not just get started but to grow and succeed and nurture beyond those first few years.

Ms. MILLS. The reason I say it is both/and is many of our startups are Main Street businesses and our SCORE representatives really spend the bulk of their time at early stage and startup business plans. High growth companies tend to need a different kind of mentor. Those mentors tend to be gathered around these accelerator networks. That is why we need a both/and approach.

Mr. SCHNEIDER. Right. Thank you very much. I yield back my time.

Chairman GRAVES. Both Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman. Madam Administrator, I appreciate you being here.

A couple questions. I want to follow up on the issue of the $10 million of cuts in the SBDCs versus the expansion of 57 million for a variety of initiatives.

In my visits with SBDCs, just last week apparently there was a little confusion. They were not told that there was money that would be flowing through them. They still have the $10 million of cuts. Can you explain what you told them and how that is different from what I am hearing from you today?

Ms. MILLS. I want to be clear. We have worked through this with the SBDC leadership. We have been working on Boots to Business for a year already, so they are completely involved. They are engaged today with E200 (Emerging Leaders), and we value this partnership we have with all our resource partners, particularly the SBDCs, who are one of the core pieces of what we call our bone structure.

Now, we understand that traditionally each of these places has operated as a silo. And making sure that one sees the world in a collaborative fashion is a process, and we understand that the SBDCs are concerned about making sure that they continue to deliver what they are delivering, and we are equally as focused on that. That is why—I want to make sure you understand—that the request we are making today is the same request that we made in the last budget. So we are making the same dollar request that we did prior. We have not changed our assessment. And we do value the Small Business Development Centers, so we are going to make sure that they have incremental resources; that they are the core recipients, if they choose to be, of delivering Boots to Business and the intensive entrepreneurial experience.

Mr. HUELSKAMP. So your budget does or does not cut $10 million from the Small Business Development Centers?

Ms. MILLS. To be clear, our budget request is the same budget request the president made last time.

Mr. HUELSKAMP. Well, I appreciate budget request; how about current year budget—actual approved budget? Is it a $10 million cut then from the current budget you are operating under?

Ms. MILLS. From the current budget, this request is not at the same level as you point out, but it does not include all the dollars that would flow through through these absolutely targeted programs that are proven to deliver value, that the Small Business Development Centers are already engaged with in a highly productive way. So we are focused on making sure we put our efforts against proven programs that deliver results.

Mr. HUELSKAMP. I understand that. Let me get back to the issue of what they have heard and communicated with me and apparently some other members is they were not told they were going to get this money and be providing those services, but you are telling the Committee now that you believe the new initiatives and the money flowing through would more than cover the $10 million in budget cuts that you proposed?

Ms. MILLS. We have sat down with our partners to talk about these efforts over the past several weeks and covered this with their leadership, and we will be happy to continue to communicate about this, to work with our partners to make sure that Small Business Development Centers can continue to provide the role that they have.

Mr. HUELSKAMP. Are you still proposing changes to the Small Business Act as part of this package?

Ms. MILLS. I do not believe we are.

Mr. HUELSKAMP. I had understood otherwise, so all these programs—the initiatives are currently full authorized?

Ms. MILLS. Yes, they are fully authorized.

Mr. HUELSKAMP. Okay.

Lastly, with apparently the lack of communication and perhaps it is a rural area where the communication has not gotten that far. When you are 100 miles from your nearest center, maybe 250 miles if you are not using the SBDC, it is pretty hard to avoid a silo approach when you are the only one within a 100-mile radius. How do you address that? How do I encourage them to continue to offer those services when they see you cut the line item. I mean, you actually cut 10 million out and then say, "Oh, do not worry. We are going to cover that with these new initiatives."

Ms. MILLS. Well, I also come from a rural area. I come from the great state of Maine. So I have a lot of sympathy for the rural areas.

Mr. HUELSKAMP. Let me interrupt. How wide is the state of Maine?

Ms. MILLS. I will have to get back to you on that.

Mr. HUELSKAMP. Well, let me, I will just tell you, it is not as wide as Kansas. It is not as wide as my district. We are talking 250 miles from the nearest SCORE office if you were using this to a corner of the district. We are talking a three or four hour drive. And when you put budget figures in there that say we are going to cut 10 million out of the closest office and then suggest, well, do not worry, we are going to move the money around, I mean, that is a rural area and that is the concern we are hearing.

Ms. MILLS. Well, as I said, I share your concern about rural areas and I am happy to address this with your Small Business Development Centers in Kansas as well.

Mr. HUELSKAMP. Okay, thank you.

Chairman GRAVES. Ms. McLane Kuster.

Ms. KUSTER. Thank you, Mr. Chairman. Thank you very much, Administrator Mills. Great to see you, another New Englander. I am a new member from New Hampshire and it is—we consider it rural but absolutely not as wide as Kansas. So I will grant that to my colleague.

I wanted to mention—have a conversation about women-owned small business. In New Hampshire, 90 percent of our employers are small business owners, and we have a wonderful relationship with the Small Business Administration and appreciate the loans and the guidance and the mentorships that are provided. But I would love to get a little more from you particularly on two programs—the Women's Procurement program and the Women's Business Centers, if you could, just to give us an update. I know the Women's Procurement program in particular had had a rocky slow start before you came on board, and I would love to hear what the update is, how we are doing, and whether women-owned businesses have grown during your tenure.

Ms. MILLS. Well, thank you, because I would like to take a moment to thank the team at the SBA for the progress that we have been able to make on the women's procurement rule. It was passed in the year 2000. It was not implemented, and when we came in it was proposed to be implemented in almost such a limited way that it would not work at all. Instead, we went back. We were able to implement the procurement rule for 83 industry sectors with 374 industry subcategories, and I am very pleased to say that over 13,000 small businesses that are women-owned have uploaded their self-certification into our registry. In addition, we have a very significant, positive development with the passage of the Defense Authorization Act in January, which removed the caps on women-owned business contracting, and we are in the process of implementing all of those regulations at this time.

So we are highly focused on women's contracting. We just launched yesterday a program called ChallengeHer, which is a partnership with WIPP (Women in Public Policy) and American Express to bring more women-owned small businesses into the contracting world and educate them about the opportunities that exist. Our Women's Business Centers, we have over 100, and they are an integral part of all of our activity.

Ms. KUSTER. Great. And I will yield back my time. But thank you for your service.

Ms. HERRERA BEUTLER. Oh, would the gentlelady yield for a little follow up on women-owned businesses?

Ms. KUSTER. Absolutely. Happy to.

Ms. HERRERA BEUTLER. Thank you. I am glad you brought that up.

The Women's Caucus will be sending a letter specifically on contract sizes, the CAPs. As you know, on January 2nd, the president signed legislation removing the CAP size of the contracts for the women-owned businesses set asides. However, they are still in place four months later. And I wanted to see if you could give us an update on that because this is obviously something we would like to see something. It is something Congress finally agreed on, the president signed. Where are we at with that?

Ms. MILLS. It is a top priority for us. As I said, this is an absolutely terrific development and we have made it a top priority in the regulatory process. So we are moving that through the regulatory process and it is moving as one of our number one priorities.

Ms. HERRERA BEUTLER. So it is out of final rulemaking? Where is it in the rulemaking?

Ms. MILLS. I am happy to get back to you on that. I believe it is at OMB.

Ms. HERRERA BEUTLER. Thank you. Thank you for the time. We will find out.

Ms. KUSTER. Absolutely. Thank you very much. And once again, thank you, Administrator Mills, for your leadership and particularly for women-owned businesses. We are very grateful. And good luck to you in your future. Thank you. I yield back.

Chairman GRAVES. Ranking Member Velázquez.

Ms. VELÁZQUEZ. Yes. Administrator, you heard members from both sides on how much we care about the stability and continuity and the contribution that SBDCs do. It is a network that has helped us. As we all know, the economy is still fragile, and in order for us to get small businesses to do better, SBDCs play an important role. So when people question the fact that there are new programs that have not been authorized by us and yet they are getting funding and you are cutting SBDCs, that really creates concern. And yes, they were cut by $10 million based on your own submission. I heard you say before that they were not; that it is not $10 million.

Ms. MILLS. Do you want me to answer?

Ms. VELÁZQUEZ. Look, you have the numbers. I have the numbers.

Ms. MILLS. Yes.

Ms. VELÁZQUEZ. So let us move to the next question.

You answered Ms. Chu regarding the fact that you chose to reduce the fee rather than the interest rate and you said that you cannot do that. Is that correct?

Ms. MILLS. I believe what I said to Ms. Chu is that we set the fees; the banks set the interest rates.

Ms. VELÁZQUEZ. You set the interest rate, and this is—I have chapter 4 of 7(a), the statute, and it says here, we stand in the provisions of the constitution of any state, limiting the rate or amount of interest rate may be charged, taken, received or reserved the maximum legal rate of interest on any financing made on a deferred basis pursuant to this subsection should not exceed a rate, but that does not preclude you from lowering the rate. And I just want for the record to reflect that.

Ms. MILLS. Well, let me absolutely get back to you, but my understanding of that provision is that that is a cap.

Ms. VELÁZQUEZ. It is a cap but what it is saying is it does not preclude—it does not say that you cannot lower the rate. It says that you cannot exceed.

Ms. MILLS. All right. It says that we cannot guarantee any bank rate that exceeds that rate. But we are happy to have the conversation.

Ms. VELÁZQUEZ. Her question was why do you choose to reduce the fee rather than lower the interest rate. Your answer basically contradicts the statute. That is my point.

You know that for so many years as a member of this Committee I have been concerned about the integrity of the HUBZone program, and at my request the GAO conducted three investigations. And basically, those follow-ups showed that the program is wreaked with fraud, abuse, and mismanagement.

So my question to you is given that and the fact that GAO has repeatedly recommended that SBA perform unannounced site visits before a firm becomes HUBZone certified and that the site visits have been proven to be an effective method of oversight, yet your budget outlines plans to reduce the number of site visits to 500. So why are you reducing the agency's commitment to this proven fraud prevention tool?

Ms. MILLS. When I first came to this agency, fraud, waste, and abuse was a real issue. And we stepped right in and we delivered a three-part program going after fraud, waste, and abuse. And I think you will agree it has been pretty effective.

One component of that was upfront eligibility. The second component was site visits and ongoing monitoring. The third program was going after bad actors and enforcement.

Ms. VELÁZQUEZ. How many of those bad actors that were shown to defraud have been fined?

Ms. MILLS. Many, many have been eliminated from the program. So we now have a much more viable screen on the front.

Ms. VELÁZQUEZ. Will you be able to submit to the——

Ms. MILLS. We will be happy to submit to the Committee. But we now have a very effective upfront screen on eligibility that we did not have at the time. We are happy to go over with you what we are doing on the HUBZone program, but the HUBZone program, as you know, is very, very important to us and the integrity of that HUBZone program, as you correctly pointed out day one, needed attention. We provided attention. We will continue to provide attention to make sure that anybody who is not a HUBZone is not in that program.

Ms. VELÁZQUEZ. I hope that the next time I ask GAO to conduct another investigation that you prove to be right because as you know, for many years now, we have been in this predicament. And to go from 1,050 visits to reduce to almost half of them, I hope that you are right and that what you are doing is effective and that you are protecting taxpayers' money.

With that, I thank the Chairman for your time.

Chairman GRAVES. Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Ms. Mills—and I am sorry. I should have actually had staff dig this out before getting here. When you look at sort of the guaranty portfolio, particularly those with a couple years on them, where are you seeing claims? Where are we seeing impairment? Just help me understand is there geographic separations? Is there category of business program separations? Where do you see both problematic and where are you surprised at performance?

Ms. MILLS. We track very carefully loan impairments and defaults. And interestingly, the cohorts that were the most problematic are the 2005, 2006, and 2007 cohorts. And largely, the problem is in commercial real estate, particularly in the 504 portfolio, which relies heavily on commercial real estate. Those inflated values did not prove to hold up through the recession, and that created losses in those cohorts, which have largely moved through the 7(a) portfolio, which is the reason the subsidy is down to zero, and are moving through the 504 portfolio as well. So that portfolio will improve.

Mr. SCHWEIKERT. And specifically on that, and just to make sure I am understanding it correct, so this is sort of an education to me, the individual lender or servicer for that lender does—on those occasions you have an interest in the underlying real estate, so do the foreclosure there. And so they act as the process. And at the end the shortage is where the claim is made to you?

Ms. MILLS. We have a multi-pronged effort to go after taxpayer money. So first, the servicer or the CDC will go after it. Then we will go after it. And we have a multi-pronged effort to go after the money. We really try not to leave a penny of taxpayer money outstanding.

Mr. SCHWEIKERT. Well, because the one aside on that was I understand the underlying real estate. You know, you have an interest there. And I did not know if also in that type of loan you have a right to go after personal properties that would be within the business.

Ms. MILLS. We take lots of collateral. All collateral. But in the case of 504, it is a second lien.

Mr. SCHWEIKERT. Okay. So you are in a secondary position. So in that case you are, particularly in real estate, you have been substantially wiped out.

Ms. MILLS. Well, we have substantial recoveries. It depends.

Mr. SCHWEIKERT. When you say depends, can you help me understand sort of what the numbers are?

Ms. MILLS. Yes, we would be happy to talk to you about the recoveries in the portfolio and whatever——

Mr. SCHWEIKERT. What I am trying to understand is also recovery on the underlying real estate and recovery within the personal property, the machine equipment, things that would be done on a bill of sale and your process for doing that. It is somewhat of an academic question on how some of the small SBA representing lenders are modeling and helping you get there.

Second question. Some of the mentoring programs, unlike some of the previous discussion, I am from an urban-suburban district. And I have often had a concern on some of the mentoring programs because I find there seems to be dozens of them, at least in my community, those offered through the community college, through the university, through business groups, through trade associations. When is there enough within the community to make it so we are just becoming somewhat repetitive?

Ms. MILLS. Well, as you mentioned, one of the things that we have done is really what I call link, leverage, and align. Our SBA partners and our other federal partners, and very often community colleges, mayors' offices, local economic development, in order to make sure that a small business can navigate through that resource that will be right for them. So if they want mentoring in exports, how to grow their business, they would go to one place. If they want to start a new business, the right place is SCORE.

Mr. SCHWEIKERT. But if you are in a community that actually has a fairly robust both private sector, nonprofit sector, infrastructure to provide these? Is that an occasion where in your organization you are able to move resources to a member's rural district, or those of you in Maine—I am curious if you have the ability to sort of make those strategic decisions on directing the resources.

Ms. MILLS. To specifically answer your question, in some cases no, and some cases yes. But you have to understand that in areas that are urban there may be a lot of programs but there is a lot of demand. And a lot of demand for different kinds of services that may look the same but for an entrepreneur, a high-growth entrepreneur, they need an accelerator. For a new Main Street startup, they need a SCORE representative. What we have been able to do with our new website and with our link, leverage, and align resource partners is navigate that person to the help they need. If they walk into a SCORE office and they need a Small Business Development Center, we can send them there.

Mr. SCHWEIKERT. And Mr. Chairman, I appreciate your patience. I know I am over time. My concern is obviously I need to now hop on the website and do a little digging around. Does it actually direct you saying this is an organization that provides this service? Oh, by the way, we have no association with government dollars. We are funded by the community or by our participants.

It seems amazingly duplicative some of the meetings I go to and the number of resources that are there.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Ms. Mills, thank you for your service to the government and the people of the United States.

I do not want to beat a dead horse but I guess I am going to beat it one more time. In terms of the SBDCs and the work that they have done that has been stellar in some areas, you know, the GAO even last year cited the program's best practices model in terms of the rate of return on investment among other things, but yet, and still, you know, on both sides it has been raised the $10 million in cuts that we see for the centers. And I need to understand under sequestration there was a 5 percent across-the-board cut but it appears the centers received an 8 percent cut, and I need to understand why that is.

Ms. MILLS. Well, let me come back to the Small Business Development Centers and once again say that we believe our Small Business Development Centers are an absolutely critical part of our resource partner network. They are highly valued. They are going to receive incremental funding from a multiple of different programs that reflect the priorities of the job creation numbers. So we are very much working in partnership with our Small Business Development Centers. We have to in sequestration make a number of very difficult choices, including cuts to resource partners that we wish we did not cut.

Mr. PAYNE. Okay. But if the number is five, how did we determine eight in that area?

Ms. MILLS. Well, we are going to reveal our sequestration plan tomorrow, so I am happy to go over that with you with those specific numbers and the rationale for each one. That will come out tomorrow.

Mr. PAYNE. Okay. And the SBDCs are even helpful in Sandy relief efforts, and although they are receiving specific Sandy assistance dollars, my concern is still with that 8 percent cut in sequestration. And we are hoping that the Sandy money will be used to supplement and not supplant dollars for those programs.

Let me just also, you know, Women's Business Centers were mentioned, the HUB's program was mentioned. The administration's focus sounds great, but can you explain how you have prioritized support for small and disadvantaged businesses? You have requested cuts for funding to the HUBZone program, Women's Business Centers, Veterans Business Outreach Centers, Native American Outreach, and eliminates the PRIME program. Can you outline your efforts to support disadvantaged and minority-owned businesses?

Ms. MILLS. Well, as you know, our job at the SBA is to fill gaps in the market. And the biggest gap in the market is really in underserved areas. And this is where our 7(a) loan program is three to five times more likely to support a loan to a woman or minority-owned business than conventional lender. In our 8(a) program, it is for socially and economically disadvantaged small businesses. And across really the entire SBA effort we have had a focus on the underserved market. We have a council on underserved communities that advises us on where those gaps exist and then we tailor our efforts to make sure that if the market is providing service to a community, we will focus on the places where there are gaps in the market.

Mr. PAYNE. So based on that and the cuts that are going to happen in all of these programs, that has been the information and recommendations you have found?

Ms. MILLS. Well, we are in a situation in this budget where we have to do more with less. And we are tightening our belts. We are cutting all across the agency. We are eliminating waste and we are forced to take cuts in the sequestration. And we are going to be determined to make sure every dollar we can goes to small businesses with particular emphasis on small businesses in the underserved community that do not have access and opportunity. That is our job.

Mr. PAYNE. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chair. And thank you, Ms. Mills, for your service. I know you have been busy the last four years.

Just to follow up on some of the questions when you are the last questioner of the day here or second to last, you wind up with leftovers here. So I have a few little items I just want to kind of go back, touch on, and just kind of clarify in my own mind.

With regards to the fee structure on loans, because of the success of the program, apparently, you are able to drop the fees on those loans under $150,000; is that correct?

Ms. MILLS. Yes.

Mr. LUETKEMEYER. And I guess my question is why are you doing that versus just lowering the fees across the board for all of the loans? It would seem there would be an economic benefit that is being had by those larger borrowers over the smaller borrowers.

Ms. MILLS. When I came into this job four years ago loan volume had just frozen. And we were able to raise the guarantees and eliminate the fees. And that created a sharp recovery in our loan volumes. In fact, we had two record years. But when you parse the numbers out, the large loans above 150,000 have recovered; under 150,000, they dropped from 79,000 loans to 27,000, and they have remained at that level since 2009. So we know that the small dollar loans, the banks are not making them, and we need to make sure we push on the demand side and on the supply side, and that is what this fee reduction program will do.

Mr. LUETKEMEYER. Well, our staff did a quick review of the fee that you are talking about, and on a $100,000 loan it would amount to $38 a month. With all due respect, Director, that is not going to encourage somebody to take out a loan under $150,000 versus not take out a loan. Let us be honest here. The reason the loans in that category are frozen or have dropped is because of the demand. You cannot tell me banks are not out there. They have got all kinds of capital, all kinds of money to loan out right now, and a fee of $38 a month is going to make the difference between loaning it and not loaning it?

Ms. MILLS. I respectfully have to say that our data differs.

Mr. LUETKEMEYER. Well, okay. I will move on but I certainly—I do not—well, anyway.

Very quickly, with regards to some of the other issues here that we have, the Disaster Loan program. We have had some disasters over the last several years and I am just kind of curious about the amount of money that is in the disaster program and the past dues that are in the program, how that is faring. What do you see in the disaster program versus other programs comparatively? And obviously, the recent disasters we have had, those folks have not had loans long enough or maybe not even in the hopper yet to even be part of the question, but I am sure over the last several years have had all kinds of problems.

Ms. MILLS. Well, first of all, I am happy to say that our disaster operation has actually been completely transformed since Hurricane Katrina, and we have built the capacity to come in and serve in these disasters. I know this is not specifically your question but I just want to take the chance to tell you we have 2,000 ready reserve. We only had 880 staff during Katrina. And during Katrina we did not have enough seats. We had 366 seats to process those loans. Now we have 2,100. And let me tell you, every single one of them was filled during Hurricane Sandy. We just finished processing $2.2 billion of loans. It is the third largest disaster in the history.

Mr. LUETKEMEYER. Okay. My time is limited.

Ms. MILLS. Okay.

Mr. LUETKEMEYER. I appreciate the education on that but my question is how are these loans performing comparatively?

Ms. MILLS. Disaster loans are performing at about the standard that they always have.

Mr. LUETKEMEYER. Right quick before my time runs out here. With regards to sequestration have you reduced your employee numbers at all as a result of sequestration? And if so, how much?

Ms. MILLS. Yes. We instituted an employee freeze of 5 percent of our vacant FTEs. And the reason that we did not have to do furloughs or layoffs is that a year ago at this time we did a voluntary force reduction that added up to about 200 people. And those——

Mr. LUETKEMEYER. A voluntary forced reduction. Can you explain that to me?

Ms. MILLS. Yes. It is called a VERA VSIP and we offered early retirement.

Mr. LUETKEMEYER. Okay.

Ms. MILLS. At the SBA we have a very retirement ready team. And we are bringing in the next generation. So as we were——

Mr. LUETKEMEYER. That is a nice way to say you have an aging population that you have employed; is that right?

Ms. MILLS. And we were rehiring. We are in the process of rehiring. And instead of rehiring up to our limit we reduced our limit down.

Mr. LUETKEMEYER. Okay. So basically you have done it through attrition.

Ms. MILLS. So we did.

Mr. LUETKEMEYER. Through a retirement program and attrition.

Ms. MILLS. It happened that we had this early retirement program and we were able to not rehire.

Mr. LUETKEMEYER. All right. Very good. Thank you very much.

Thank you, Mr. Chairman.

Chairman GRAVES. Thank you.

The question I have, if your agency had to take another 2 percent cut, do you know where you would take that from?

Ms. MILLS. Mr. Chairman, I have to tell you, it would be very difficult because we have really over the last four years taken every dollar that we have that does not touch a small business and streamlined, simplified, reduced waste in order to get that dollar in a place that would help small businesses. And right now, as you have heard from others, we really could use lots of—there are lots of small businesses out there that need our help and we are providing it as effectively as we can. So we are tightening our belt. We will continue to do process improvement. And if we turn up an extra dollar it will go right out into the field or someplace in a program that touches a small business.

Chairman GRAVES. Because it is definitely possible we could see more cuts and it is something we have to think about, too.

Any other questions?

With that, I would like to thank Administrator Mills one last time for coming before the Committee. It has been a pleasure working with you over the last four years and I wish the very best of luck in whatever it is that you intend to do.

Do you want to go ahead and make a statement? I have one more.

Go ahead, Ms. Clarke.

Ms. CLARKE. Thank you, Mr. Chairman. I thank you for your indulgence, Mr. Chairman. As always, you are dividing your time among so many different committee hearings and meetings, but I am glad I had an opportunity to just come in and to greet you this afternoon, Administrator Mills.

I just want to quickly ask you a couple of questions. I know we are going to be saying farewell to you shortly, but I want to make sure that we have a basis on which to build from all that you have been able to accomplish during your tenure.

And I am going to preface this first question by stating that I understand that the SBA, along with the rest of the Federal government were required to make cuts as a result of the very ill advised sequester legislation that is in place right now. That said, I am having a little bit of a hard time understanding the disproportionate cuts to a couple of programs—programs like the SBDCs and SCORE, while creating new technical assistance programs with similar mandates. Can you just give us some insight into your thinking about why you saw the necessity to do that and to create the new programs? Why cut programs that were not broken to create new ones? As far as I can understand, it does not seem like it was a request of anyone but give us a sense of the direction you are heading.

Ms. MILLS. Well, first of all, Congresswoman, it is great to see you, and thank you again for your partnership over all this time.

I am happy to come and also provide a longer explanation, but briefly, because I know we talked about this earlier, this is not an either/or; it is a both/and. We believe in our Small Business Development Centers, our SCORE partners, our resource partners, and we know what creates jobs. So we need to layer on programs that work through—they are not new bricks and mortar programs. They are programs that work through and optimize new efforts delivered by our Small Business Development Centers and others, such as our Intensive Entrepreneurial Education program. I would be happy to come take you through how that fills a gap in the marketplace, does not duplicate other activity now provided by the Small Business Development Centers.

Ms. CLARKE. So can you just sort of give me a sense of the mechanics then? Because for the SBDCs, they were cut by 8.6 percent; SCORE was cut by 6.8 percent. That is like $10 million for a program that was not like robustly funded to begin with. So is this an overlay on the missions that those organizations already have, the intensive piece you were talking about?

Ms. MILLS. As I mentioned earlier, the Intensive Entrepreneurship Education experience delivered by the proposed program is a proven program. It exists today in 27 cities. We have metrics on it. It exists with Goldman Sachs 10,000 Small Businesses. It exists in FastTrac. We are taking this program, making sure it is delivered through our resource partners as it is today. The same is true of our Boots to Business program which is for returning veterans, providing them a pathway to entrepreneurship. And as I said, we would be delighted to have you come visit one of the graduations or one of the classes of the E200 so you can see how the Small Business Development Centers are integral to their delivery.

Ms. CLARKE. Oh, okay. So essentially, the programs are run through the SBDCs? Is that how it works?

Ms. MILLS. That is absolutely the intention and the practice.

Ms. CLARKE. Okay. And then with SCORE, are we phasing SCORE out or is that just another component?

Ms. MILLS. SCORE is a very important component. SCORE does, as you know, one-on-one mentoring.

Ms. CLARKE. Yes.

Ms. MILLS. Small Business Development Centers do classes, individual classes, and long-term counseling. This nine-month entrepreneurship program, Intensive Mini MBA, is geared to those midsize small companies able to take the time and energy to move to the next level, providing the skills for that owner-entrepreneur to be successful.

Ms. CLARKE. Okay. So it is really a hands-on sort of let us take you to the next level. And that is something that you feel the SBDCs did not really have within their bailiwick prior to the creation of the program?

Ms. MILLS. It does not exist currently in the SBDC world of individual classes and long-term counseling, which by the way is very valuable and very much a part of the SBA's core activity.

Ms. CLARKE. Well, Administrator Mills, I hope that we can get together before your departure, and I want to thank you for all of your commitment to the small businesses of our nation and wish you all the best in all of your future endeavors.

Ms. MILLS. Thank you.

Ms. CLARKE. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Absolutely. And again, thank you for all the work you have done. Again, it was a pleasure to work with you the last four years.

Ms. MILLS. Thank you, Mr. Chairman.

Chairman GRAVES. Thank you, Mr. Chairman.

And with that I would ask unanimous consent that all members have five legislative days to submit statements and supporting materials for the record. And without objection that is so ordered. And with that the hearing is adjourned.

[Whereupon, at 2:34 p.m., the Committee was adjourned.]

A P P E N D I X

U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

TESTIMONY OF

KAREN G. MILLS

ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

APRIL 24, 2013

Chairman Graves, Ranking Member Velázquez and members of the Committee—I'm pleased to testify before you today. I want to start by thanking this Committee for its ongoing support of the SBA and America's 28 million small businesses and entrepreneurs.

The President's FY 2014 budget is focused on job creation and accelerating our economic growth.

We know where American jobs come from: Half of all working Americans either own or work for a small business. And these businesses create two out of every three net new private sector jobs in the United States.

The FY 2014 budget makes strategic investments in America's small businesses. It fills remaining gaps in the market, particularly for small dollar loans, while supporting proven programs that fuel job creation, new business formation and American innovation. These are critical to a full and robust economic recovery.

Four years ago, when I first appeared before this Committee, small businesses were struggling in the face of one of the worst economic environments since the Great Depression.

At the SBA, we rolled up our sleeves and we went to work. We eliminated fees and streamlined programs, in some cases taking more than 100 pages of paperwork out of loan products.

The results have been significant, including two record years in 2011 and 2012 of delivering over $30 billion in loan guarantees.

Our 2014 budget builds on these efforts. Key initiatives include: the elimination of fees for borrowers and lenders for all 7(a) loans under $150,000; and SBA ONE, which creates single application for all 7(a) loans and allows borrowers to more easily complete lending forms.

The 2014 budget also invests in the SBA's powerful counseling and mentoring network. These investments focus on the types of small businesses that are best positioned for job creation: expanding firms and start-ups.

Expanding firms created 8.7 million new jobs betweeen March 2011 and March 2012.

Our budget requests $40 million for an intensive business leadership program that provides the skills training to help more of these established business owners to successfully scale their operations and create more jobs.

The program is built as a public-private partnership that will allow us to maximize its reach.

The other area poised for growth is start-ups. These businesses punch above their weight when it comes to job creation.

At the SBA, we've had our third consecutive record breaking year for our Small Business Investment Company program. And the 2014 budget allows us to further support start-ups through targeted tools such as growth accelerators and clusters.

We also know that for both established firms and startups the opportunity to sell to the federal government can be a game changer.

As a result of our efforts, in the last three years of reporting, small businesses have accessed $32 billion more in federal contracts than the previous three years, even as overall contract spending decreased during those years.

We continue to take a zero tolerance stance on fraud, waste and abuse in federal contracting to make sure that small businesses are the ones getting these contracts. And we've instituted programs like QuickPay to make sure they get paid more quickly.

Our 2014 budget will continue this emphasis on contracting by putting more resources, known as Procurement Center Representatives, in the field. Our research shows that the 32 new PCRs proposed in the budget can influence approximately $7 billion in small business contracting.

Today, thanks to Agency-wide efforts—and the support of Congress—small businesses are interacting with a different SBA. One that's more customer-focused, more data driven and more transparent.

On a personal note, this is likely the last time I'll be testifying before this Committee. It has been an honor and a privilege to work with you over the last four years. And, once again, I want to say thank you.

digitalhands

Digital Hands Testimony to the House Committee on Small Business

"The Budget Outlook for the Small Business Administration"

April 24, 2013

digitalhands

Digital Hands is pleased to offer its views to the Committee regarding the increased volume and complexity of cyber-attacks as it affects emerging technologies utilized by small businesses, such as cloud computing and mobile technology, and why we urge the Small Business Administration to devote more resources to ensure small businesses have the tools and education they need to survive in a climate that demands increased cybersecurity. Digital Hands is a certified Economically Disadvantaged Women Owned Small Business (EDWOSB) based in Tampa, Florida. As a managed services provider committed to 100% onshore delivery of services, our strengths include managed cyber security services, managed infrastructure services, and help desk support. We believe that cybersecurity is an integral part of the 21st century business plan, and are particularly cognizant that small businesses are often unaware of its criticality.

The Importance of Cybersecurity and IT Awareness for American Businesses

There are many risks facing companies – large and small – in today's business environment. Few, however, are more compelling than this: American companies are under attack by cybercrime syndicates, hacktivist groups, and even foreign governments using increasingly sophisticated methods and countless resources. We hear daily of yet another financial institution, corporation or health care organization, public and private, large and small, which has been violated by a cyber-threat. Breach of health records, credit card numbers, research and development (R&D) data, and corporate or personal financial records are just at the tip of global business' cyber-threat iceberg. The perpetrators of these acts often remain nameless and faceless, stealthily taking what is of greatest value to them and disappearing long before a company recognizes the breach.

But data breaches are not the only problem. Often these threats do not try to rob, but rather try to prevent the generation of revenue via acts of cyber-terrorism such as distributed denial of service (DDoS) attacks. In this case, networks are rendered unusable, costing the target untold dollars and negative publicity, depending on the duration of the attack or how quickly the assault can be remediated. A recent study has suggested the business cost of a data center outage may average $5,600 per minute—a crippling sum to most small and medium sized businesses if the outage is prolonged.[1]

The previous scenario is not an exaggeration and incidents like this happen nearly every day. Statistics from the 2012 Data Breach Investigation Report (DBIR) tell us that the number of breaches was the second highest ever, compromised the largest number of data records ever (45x more than the year prior), and originated from the greatest number of countries ever (36). The numbers are trending upward. Of those reported, 98% of data breaches originate outside the targeted organization, 55% of breaches remain undiscovered for six months or more, and an amazing 97% of breaches could have been avoided if simple or intermediate controls were implemented as an organizational priority.[2]

Finally, while large businesses may offer the potential for the greatest profit, they also bring with them the greatest risk of discovery to the attacker. Smaller businesses constitute the majority of incidents because they offer easier targets for the cyber-criminal, can be executed against multiple targets simultaneously, and often offer little, if any resistance. The DBIR concludes: Smaller businesses are the ideal target for such raids. Money-driven, risk-averse cybercriminals understand this very well. Thus, the number of victims in this category continues to swell.[3]

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[1] CA Technologies (2011). "Cost of Downtime Survey."
[2] Verizon RISK Team (2012). "2012 Data Breach Investigations Report."
[3] Verizon RISK Team (2012). "2012 Data Breach Investigations Report."

One of the most prevalent issues facing companies is the lack of visibility and knowledge about the vulnerability of an entity's IT assets and the proper resources to protect it. This gap ranges from cyber events to the volume, use, and classification of data. Many organizations are unaware of what they need to protect their IT assets. In addition, once a potential weakness is identified, many companies do nothing or at the very least mitigate the risk with lesser controls.

Ultimately, this can lead to a financial loss that is substantially greater when compared to the cost of implementing a sound, holistic security posture. This is not to imply that all organizations do not make concerted efforts to improve their security. Generally, most companies start with endpoint protection, working their way through various solutions until they find the one that they feel meets their needs best. Network and data security are addressed to some degree, but few companies actually put a total asset protection solution in place. Because of lack of security expertise and cost, most companies again deploy an out of the box solution for policies and configuration, without addressing the true root of security threat.

The underlying issue for cybersecurity within most companies is that they 1) do not have a true understanding of security, which leads to 2) a lack of proper and effective security controls to protect against threats, which often leads to 3) nonexistent or unenforced security policies.

Security breaches cost more than $15 billion worldwide even though many organizations have deployed security solutions. Companies large and small spend what they consider to be "just enough" money on security to mitigate risk, achieve compliance (somewhat) and essentially look secure. Generally, IT teams do not understand what is required to protect their organization nor how much money it will actually take to do it. Moreover, rarely do they completely understand the risks and the ones that do cannot communicate the urgency of it to the senior executives.

Reducing IT Security Threats

To reduce security threats organizations should develop a threat and risk document which details where the threats will come from, what parts of the IT systems are vulnerable and what the risk of a security event is. As part of this process we recommend conducting a risk analysis which details the costs of a security breach. The risk analysis should include quantifying the value of the company's electronic data and the loss of access to mission critical IT systems. Examples of this are: What is the cost of a down website? Is it a brand or reputation issue or is there actual costs because it is an electronic commerce site? If it is a commerce site then what is the cost per minute, per hour or per day of the site being down? Will the customer relationship management platform be available? Is it mission critical? Will the order entry system be available? You get the picture!

Another generic solution that many executives embrace is that technology or products alone solve security problems—for example, the installation of a "security appliance" such as a firewall or intrusion detection device. Many IT teams have been told that their network will be safe with a firewall only to be "sold" the next big security appliance like an Intrusion Detection System for example. These teams are being bombarded with calls, email, texts and tweets about the next best security tool and as you can imagine they are reticent when it comes to spending on security. Most of them don't understand cybersecurity issues in general, the tools and the operations required to protect their organization.

IT security specialists generally understand that the latest technology alone is not a complete solution, but only part of a comprehensive security solution. They know that cyber security is a process that includes people, process, technology, policies and operations.

Security Policy is a pre-cursor to all other security documentation that describes how an organization manages, protects and enforces its security infrastructure and provides a foundation for all subsequent actions. The documented policy defines the appropriate behaviors related to security for all employees, contractors and anyone accessing the organization. Unfortunately, having a security policy in place does not guarantee that there will not be a breach.

Many organizations, in fact nearly all, separate the IT security organization from their IT networking organization which causes conflict as the groups have very different goals and mandates. The network team's is mandated to provide access to all that need access to the corporate network whilst the security team's mandate is to protect the organization, often involving restriction to the network access. Trying to implement an appropriate security solution can be essentially impossible if all parts are not working together smoothly towards the same goal-Help the company to conduct business in a safe manner.

Security must be proactive as well as reactive!

The recent trend amongst businesses to move internal applications to cost effective cloud-based providers is a new and broad threat to information systems. Cloud services rely on the public Internet to deliver service and, because of this, data is transported across networks where information can be easily intercepted. Without strong authentication and encryption mechanisms in place, information can easily be compromised. Weak passwords and poor encryption (that were not major security issues when all data was kept with an organization's network) have become critical threat issues as applications are migrated to the cloud. According to a recent analysis by Gartner, [4]:global cloud computing market will grow to $131 Billion in 2013 and more than 60% of all enterprises will have adopted some form of cloud computing in 2013.

Mobile devices such as smartphones constitute a new and fertile attack platform. The ubiquitous use of "app stores" provides hackers a ready-made conduit directly to the critical operating processes of the mobile device. Once the device is compromised, the network is also compromised because the device has a direct network connection into the internal network and systems. Some important figures on cloud and mobile systems as a growing concern:

- McAfee saw mobile malware threats grow to 36,699 in 2012 from only 792 in 2011.[5]
- 74% of companies have/allow a BYOD policy.[6]

Both of these technologies have become favored targets because of their relative youth and immaturity of available security measures. Strong passwords, supported by close monitoring for potential malicious activity are now necessary activities and represent a major cultural shift within organizations.

Unique Issues For Small Business Protection

Like all businesses, small businesses have many concerns from day to day. At the top of their IT list is the containment of network costs, provisioning time, and network security.[7] The advances in

[4] Gartner (2011). "The Why of Cloud."
[5] McAfee (2013). "McAfee Threats Report: Fourth Quarter 2012."
[6] Fortinet (2012). "Fortinet Internet Security Census 2012."
[7] Yankee Group (2003). "What Keeps Network Managers Up at Night?"

communications and information technologies (IT) have made the world a smaller place. What was once a threat from across town may now be a cyber-threat from the other side of the world. A single breach can be so devastating that many small businesses might never recover from the financial ruin or destroyed reputation. Physical security does not safeguard against cyber criminals who only need Internet access to break into business assets, often unnoticed until months later.

It is crucial for small businesses to protect both their systems and their data against viruses, spyware, spam, hackers, vulnerabilities, and web threats. Companies of all sizes must comply with an ever-growing list of regulations, local and state privacy protection laws, and industry-specific information security mandates. With compliance auditors scrutinizing IT operations, it is understandable that many IT and security teams are unsure where to focus limited resources. This confusion is even more of an issue for smaller businesses as their resources are often more limited than their larger counterparts and the demand for their time is spread across more business concerns. On top of that, smaller business often do not have adequate access to the technical expertise necessary to fight off these cyber threats; expertise including the tools to use, how to use them, and best practices to make cyber defense not only doable, but affordable.

Combine the inadequate availability of resources with the mandatory compliance issues involving IT systems and operational processes by compliance officers, auditors, and regulators, and the result is that companies, of all sizes, are failing security audits at unprecedented rates. This means America's small businesses are vulnerable to not just local, but to global cyber threats.

Small businesses face the particularly difficult task of security because of their size. Today, many small and medium businesses compete and operate in the same verticals as larger enterprises, which means they have similar security concerns. Both may be required to deal with network security, supporting and securing BYOD devices and endpoints, and achieving overall security intelligence and visibility. However, small businesses often lack the resources to emulate the security controls and planning that are utilized by larger organizations. Government regulations now require financial, health care and many other types of industries to meet stringent security requirements and many of the smaller companies are struggling to meet them.

A report on 1,015 small and medium-sized businesses (SMBs) in the US, by the National Cyber Security Alliance and Symantec, found that even though 83% have no formal cybersecurity plan, more than three-fourths believe their companies are safe from cyber threats such as hackers, viruses and malware. This confidence is misplaced. In the past four years, we have seen continued increases in small-business data compromise. Of the 26,000 targeted attacks that Symantec documented in 2011, half were on businesses with fewer than 2,500 employees and 18% were on businesses with fewer than 250 employees. In the first half of 2012, 36% of targeted attacks were aimed at SMBs, double the number seen in the past six months of 2011, according to the Symantec Internet Security Threat Report.[8]

Recommendations: What The Private Sector And The Federal Government Should Be Doing To Be More Secure

Companies that are experts in cyber security, such as Digital Hands, know the best defense is not a single point solution but rather, a multi-pronged, holistic approach that delivers the best protection. Both SMBs and larger enterprises must implement a comprehensive approach to protecting their

[8] Symantec (2011). "Internet Security Threat Report 16, April 2011."

businesses; including educating and training every single IT user in proper cyber security practices with the goal of reducing both the number of incidents as well as the impact of any individual incident.

As experts, we recommend tools that include but are not limited to: implementing firewalls and intrusion prevention systems (IPS), complete with customized policies to protect the intended environment, web and email security; and an overall security and information event management (SIEM) technology, deployed to assist in securing and maintaining compliance on a network.

While firewalls and IPS have been around for many years, many IT administrators do not use them to their full potential. The plug-and-play mentality provides a false sense of security leaving many organizations just as vulnerable as if they had no cyber security at all. One example tells of a hacker who penetrated a major university, a financial corporation, a communication company, and many other very large corporations as recently as within the past six months. In what should have been a highly protected group of systems, the hacker only used the default password to gain access through their routers. In this case, the password was, "password." This type of misuse of cyber security tools, be it from a lack of knowledge or simple indifference, is an enormous barrier to safeguarding American enterprises.

SIEM technology is one of the more important security innovations, but requires technical expertise to deploy and operate. Deploying, managing, and maintaining effective SIEM solutions requires a significant investment in knowledge and ongoing commitment to maintain this expertise. Time is truly of the essence during a cyber-attack, and proficiency in using these tools can mean the difference between thwarting an attack and assessing damage. However, some of the cutting edge tools in the fight against cyber-crime are getting so complex that it is often recommended that organizations institute a managed security solution (i.e. outsource the security operations) for ongoing cyber security operations.

The reasons to outsource are as diverse as the companies that request them. Many IT organizations have considerable security expertise on staff but are looking to outsource select administrative tasks. Others have been flagged with compliance violations and are seeking a solution for sustainable compliance. Some organizations lack the comprehensive expertise to address today's pressing security challenges, while others are demanding measurable results and solid service level agreements (SLAs) with outsourced providers instead of finger-pointing an overburdened IT staff. Whatever the reason, it is recommended all corporations and government agencies implement a managed security solution to assist their cyber security efforts.

Finally, widespread education must be done to promote best practices in cyber security. Cybersecurity is not the job of only the IT department but instead is an organizational responsibility. Everyone that accesses the IT assets should be trained in cybersecurity principles, users need to encrypt and protect their information from theft, firewalls should be deployed (not only at business addresses but also at homes with Internet connectivity). Anyone with a mobile device needs an action plan that includes passwords on smartphones and tablets. In addition, companies should systematically maintain backup copies of important data, never leave a device (PC, phone, etc.) without first locking its use to others, encrypt wireless networks (including those used at home), and use strong (not default) passwords that are changed frequently.[9]

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[9] FCC (nd). "Cybersecurity for Small Business"

While logical, the sensible approach to security for entities of all sizes is often not followed. Recommendations to increase security are as follows:

1. *Create a security program*. The security program is not a one size fits all endeavor. It is a calculated approach to align business needs with security. In a well-designed security program, management is fully are of all organizational security risks across all business units. Governance, policies and procedures, as well as technology roadmaps are discussed and documented. Companies that do not have a current security program will most likely not have the ability to create one from scratch without the assistance of a security consultant. Experience in security is key in proactive development of methodology and controls that can withstand attacks when they occur.

2. *Holistic, Centralized Security*. Often companies purchase various solution products that, even when combined are not comprehensive in providing cybersecurity, instead leaving gaps in protection. The benefits of a centralized, holistic security model are immense when compared to multiple point solutions. First, a centralized model allows for easier management and reporting. When an incident occurs, going to multiple platforms to perform analysis and correlation is not only inefficient, but also dangerous. An attacker could be gaining access to critical systems, with the security team left behind lacking of a "single pane of glass" dashboard for security. It is understandable that all systems may not be from the same vendor, but wherever possible, efforts should be made to ensure that all systems feed into a centralized console. When an attack occurs, seconds and minutes become critical, time that can be lost navigating multiple interfaces.

3. *Let the Experts Handle It*. Top-level security is methodical and expensive, but can eventually determine businesses' success. Unless a network is constantly monitored, patched, and improved, security problems will go unnoticed and lead to major issues. One of the best ways of dealing with this ongoing need is to outsource it to companies that specialize in security, namely a managed security service provider (MSSP). MSSPs are able to handle new tasks with speed and reliability while maintaining the critical applications and data that are already in place. Qualified MSSPs give small companies the optimum combination of trained staff, proven processes, and they have the tools that keep information systems secure and operational while giving small businesses the ability to focus on their success.

The government can provide help to small businesses through education and awareness programs at the SBA, through its existing network of entrepreneurial development partners, and other agencies. We have found that case studies with small business examples are compelling stories. The outreach should highlight what simple security measures would have protected against the consequences. In addition, the government should examine incentives for technology vendors and MSSPs to create products and services to address the unique needs of small businesses.

The provisioning of the proper tools, investment in experienced security operations via managed services, and following of the above mentioned cyber security best practices and recommendations by the average American business or government organization, its employees, and their families at home will help protect all of America from cyber threats, both foreign and domestic.

digitalhands

About Digital Hands

Digital Hands leverages the cloud to reach hundreds of clients every day, and provides 24/7/365 Tier 1 through Tier 3 support services for production IT environments. The company provides customized suites of services to meet those needs and proactively reduce end user-impacting events. The company's portfolio of customizable managed security services extends well beyond traditional platform selection and monitoring. Today's IT landscape is characterized by shrinking capital budgets, limited IT resources and a rapidly evolving threat base. Enterprises need flexible solutions to ensure security and compliance within increasingly stringent financial restraints. Digital Hands helps enterprises successfully achieve both goals. Some of North America's largest airlines, telecoms, financial services companies, and hotel chains rely on Digital Hands' SLA-based managed IT and security services every day. The company offers business model alignment that caps risk and optimizes costs. In addition, Digital Hands provides reliable and predictable IT operations support that allows organizations to focus on core business needs. Digital Hands in detail:

- US-based infrastructure and industry-certified, experienced technicians and analysts providing 24/7 monitoring and management support to a global customer base
- Specializes in security, infrastructure, and endpoint management
- Customized service options i.e. our customers determine the extent of our involvement in any given engagement
- Global single-point of contact with 100% ownership of issues through resolution including liaising with manufacturers and other third party organizations
- ITIL V3 service delivery framework with NIST and FISMA to ensure consistent, quality service delivery
- Compliance monitoring and management for PCI, GLBA, FFIEC, HIPAA, and SOX
- Service level agreements
- Flexible hosting and procurement options
- Leverage MSS for existing infrastructure or to procure Digital Hands non-proprietary, industry-leading IPS/IDS technology
- Diversity-certified for commercial (WBENC) and government (EDWOSB) organizations
- 2011 Technology Services Industry Association (TSIA) Star Award for Complex Application Support