

**OVERSIGHT OF THE U.S. SMALL BUSINESS
ADMINISTRATION AND REVIEW OF THE
PRESIDENT'S FISCAL YEAR 2025
BUDGET PROPOSAL**

HEARING
BEFORE THE
**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP**
OF THE
UNITED STATES SENATE
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

MARCH 20, 2024

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OVERSIGHT OF THE U.S. SMALL BUSINESS ADMINISTRATION AND REVIEW OF THE PRESIDENT'S FISCAL YEAR 2025 BUDGET PROPOSAL

WEDNESDAY, MARCH 20, 2024

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

The committee met, pursuant to notice, at 2:33 p.m., in Room 428A, Russell Senate Office Building, Hon. Jeanne Shaheen, Chair of the committee, presiding.

Present: Senators Shaheen [presiding], Cardin, Markey, Booker, Coons, Rosen, Ernst, Young, Hawley, and Budd.

OPENING STATEMENT OF SENATOR SHAHEEN

The Chair. Good afternoon everyone. The Senate committee on Small Business and Entrepreneurship will come to order. We are delighted to be joined by Administrator Guzman. Thank you for being here today.

Let me just advise everyone that we are in the middle of votes. If it is Wednesday and the committee is meeting, obviously we are in the middle of votes. So, I expect Senators will come and go, and that is the reason.

Today, the committee will conduct a hearing to examine the Small Business Administration's budget request and to take a closer look at how the agency helps America's small businesses grow and thrive.

The Small Business Administration is a vital resource for our nation's entrepreneurs, provides access to capital, entrepreneurial development services, support for small business Government contractors, and assistance for disaster victims.

In New Hampshire, our local economies have benefited from a strong support network that helps launch new entrepreneurs and assist businesses seeking to grow and expand. This includes our SBA district office as well as SBA's resource partners like the Small Business Development Center, the Women's Business Center, and our two SCORE chapters.

As chair of this committee and as a member of the Senate Appropriations committee, I am firmly committed to making sure that entrepreneurs have every opportunity to realize their dreams. But for our small businesses to succeed, SBA will require real investments from Congress.

I intend to continue to support robust funding for these critical resources. This year, the President's budget requests \$1.4 billion

for the SBA. The Administration proposes many sound investments, including healthy levels for SBA's lending programs and disaster funding.

In particular, the budget recognizes the urgent need for additional resources to administer the COVID Economic Injury Disaster Loan, or EIDL program. Without additional funding, the SBA will be unable to provide the level of customer service that businesses need, and it will have a difficult time identifying and rooting out fraud in the program.

We need more funding for enforcement as well, which is why I was glad to see that the Administration requested a substantial increase for SBA's Inspector General, something that I had hoped we could do last year.

However, I was disappointed to see that for the second year in a row, the budget cuts funding for SBDCs, Small Business Development Centers, for SCORE, and for the State Trade Expansion Program, or STEP. As someone who helped create STEP in 2010, I am a real believer that this program has a fantastic record of helping small businesses reach international markets.

And when 95 percent of markets are outside of the United States, if we expect our small businesses to be able to enter those markets, we need to help them do that. Now, while I recognize that putting together a budget requires tradeoffs, I have to disagree with the Administration's proposal to reduce funding for STEP and other entrepreneurial development programs.

As we craft our appropriation bills this spring, I will continue to push to protect these programs from cuts. I will also work to ensure that SBA uses its resources as effectively as possible. In particular, I would urge SBA to place more staff and resources on the ground where businesses are rather than at its headquarters here in Washington.

Over the last few years, we have seen SBA's investment in its field offices diminish. I, along with other Senators, have repeatedly asked the agency to reverse this trend. As business owners know, there is no substitute for local knowledge and expertise.

I want to ensure that entrepreneurs will always be able to turn to someone at SBA who knows their communities just like they do. Administrator Guzman, I look forward to hearing from you today and discussing some of these concerns.

And with that, I will turn it over to Ranking Member Ernst.

STATEMENT OF SENATOR ERNST

Senator ERNST. Thank you, Chair Shaheen. And thank you, Administrator Guzman, for your appearance before the committee regarding President Biden's budget request of nearly \$1.5 billion for the SBA. Under Bidenomics, Americans feel like no matter how hard they work and how hard they try to make the right decisions for their families, they just can't win.

President Biden just called for nearly \$5 trillion in tax increases in his budget, including on small businesses. The burden of these tax hikes will fall squarely on working Americans. President Biden would rather bureaucrats in Washington spend Americans' money than the folks who earned it.

The arrogance is astounding. And just when we think it can't get any worse, in its new regulation upending the 7(a) program, the SBA ignored the lessons we learned from COVID era programs on financial technology and unregulated lenders. We all just watched these risks play out and cost the taxpayers billions.

You would think the Administration would learn from its mistakes, but sadly not. The SBA is giving fintechs unlimited access to a key SBA program, along with reducing the underwriting requirements that protect American taxpayers.

One of the first licenses awarded under the new rules was to a London based company called Funding Circle, whose current U.S. managing director is the former COO of the fintech Blue Vine, which aided in issuing fraudulent PPP loans.

Not only that. Reports indicate Funding Circle has an investment from a Beijing based fintech conglomerate, and it is not clear whether the SBA knew it was giving access to loans guaranteed by American taxpayers to a company partially owned by the Chinese.

Now, we have learned Funding Circle is selling their entire U.S. business with reports indicating they may try to sell their SBLC license too, and to whom we can only guess. Questions also remain if Funding Circle U.S. is financially sound. Funding Circle announced yesterday they plan to start making SBA loans as early as April.

Meanwhile, Funding Circle's CEO states they don't have sufficient capital to make SBA loans and are looking to sell. What the heck folks is going on here? Based on the SBA's recent track record, I have zero confidence in the agency to do proper due diligence on SBLC risk and protect programs from CCP influence.

The SBA said last year's reckless rule changes would fix their so-called "small dollar loan problem." Yet again in the vein of Washington knows best, President Biden's budget revives another bad idea killed, killed by the Clinton Administration decades ago, the bureaucratic and inefficient direct lending program.

Even President Obama said in 2010, that an SBA direct loan program would require "standing up a massive bureaucracy, and it would take too long, and you would be frustrated." That was President Obama. The SBA at the time also acknowledged a direct loan program would cost "billions of dollars in administrative funds."

Today, my colleagues and I demand the Administration rein in its reckless lending rules and stop issuing new SBLC licenses like the one they issued to China affiliated Funding Circle. And no, this does not mean that the SBA should replace one disaster with a bigger one, like a direct lending program.

That is why I and 12 of my Senate colleagues are proudly co-sponsoring Senator Scott and Senator Kennedy's legislation that would explicitly remove SBA's ability to make direct loans within the 7(a) program.

Administrator Guzman, you are here today asking for more money to fund an agency that is actively failing to respond adequately to numerous inquiries from Congress, actively failing to track fraud in its programs, and whose offices are often deserted, with the GAO reporting that your headquarters has only a 9 percent utilization rate. That is GAO. That is not me.

Bottom line, your agency needs to fix its major problems before asking for more money. The American people are so sick of Washington wasting their hard earned money, and the SBA's recklessness is a testament to the larger problems of Biden's mismanaged Government.

I look forward to hearing from you, Administrator Guzman, and urge the Administration to reverse course on its irresponsible policy and management decisions. Thank you, Madam Chair.

The CHAIR. Administrator, the floor is yours.

STATEMENT OF HON. ISABELLA CASILLAS GUZMAN, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC.

Ms. GUZMAN. Thank you so much, Chair Shaheen, as well as Ranking Member Ernst, and all the distinguished members of the committee who are here and who will be coming. I appreciate the opportunity to join you today.

At the SBA, we do work hard to ensure that our 33 million small businesses and innovative startups have the tools and the resources and the support that they need to start, grow, and build resilient businesses as our nation's economy truly depends on their success.

When I was confirmed by the Senate in March 2021, we were still facing unprecedented job losses of the COVID pandemic and subsequent downturn. SBA was scaling dramatically to save small businesses who were facing revenue losses and were unsure if they would survive.

President Biden understood the challenges facing small businesses, and that is why his American Rescue Plan provided essential support to the very small businesses that are the heart of our communities.

Every member of this committee knows a small business that wouldn't be open today if it were not for the support provided through the SBA. SBA's COVID-19 support, more than \$450 billion during the Biden-Harris Administration, was a critical lifeline for our small businesses when they needed it the most.

The Paycheck Protection Program helped small businesses and nonprofits retain their employees. The COVID-19 Economic Injury Disaster Loan, or COVID EIDL program, and targeted grants provided working capital to not only help small businesses continue to weather the worst effects of the downturn, but also position their businesses for growth to help our economy recover.

The Restaurant Revitalization Fund and Shuttered Venues Operator Grants programs saved our mom and pop restaurants, the cafes, breweries, stages, the shuttered performing arts centers and cultural venues who are all anchors of our main streets, driving business across the country.

Our historic level of investments in small businesses, including through the American Rescue Plan, combined with opportunities and landmark legislation such as the bipartisan infrastructure law, CHIPS and Science Act, and the Inflation Reduction Act, set the stage for America to have the strongest economic recovery of any developed country in the world.

Last year, when I appeared before this committee, leading economists were predicting an economic downturn. Now, the U.S. economy continues to power ahead, inflation has slowed over the past 18 months, and interest rates are down from their recent highs. And with 14.8 million more jobs than when the President took office, labor markets are strong and stable.

In addition, we have seen the top three years of small business application filings, the highest on record. This historic small business boom has delivered 16.8 million applications filed since the President took office.

These acts of hope, as President Biden calls them, are powered by entrepreneurs in every State and especially by women and people of color who are leading with the highest start up rates. This is what happens when we have an Administration that is committed to building an economy from the middle out and the bottom up.

SBA's capital and resource programs are reaching more communities and making an impact. I have visited thousands of businesses across the nation, including many in your districts and your States, and these entrepreneurs continue to inspire me and also inform the work at the SBA.

Small businesses have shared with me their future plans and prospects, as well as the challenges that they face every day. And finding affordable capital often tops the list. In 2023, SBA supported more than \$50 billion across our core lending, bonding, investment, and disaster programs.

Our reforms helped reverse the decline in small dollar lending. By simplifying and cutting red tape, we have made it even easier to work with the SBA and have given greater flexibility to our expanded lending network to make the type of small dollar loans that are key to supporting SBA's historically underserved communities, which includes rural, low income, women, people of color, as well as startups and veterans.

SBA loans to underserved markets have increased as a result of reforms at the SBA. For example, both loan dollars and numbers to black owned businesses have more than doubled, loan numbers to Latino owned businesses have doubled, and increased to women owned businesses by 70 percent.

And for the first time in more than 40 years, SBA awarded three new licenses in the small business lending company program to companies in Alaska, Colorado, and Arkansas. SBA transitioned community based lenders and community advantage out of their pilot license into the new, permanent SASBLC license.

SBA now has 142 SASBLC enrolled lenders, which is 39 more than the number enrolled under the pilot program just a couple of years ago. Critically, SBA has also prioritized preventing fraud across our programs. We put in place best practices for fraud prevention, detection, and response.

We have also continued to work in close partnership with the Inspector General and law enforcement to recover stolen taxpayer funds in the COVID pandemic programs. Because of our reforms, all SBA loans in our core programs are screened for fraud prior to disbursement as part of our eligibility check.

Our aggressive actions and investments mean that SBA is more strongly positioned to combat fraud, waste, and abuse across our programs, which allows our entire mission driven team at the SBA to focus on delivering entrepreneurial support and resources to help more Americans start and grow their businesses and recover after disaster.

I look forward to working with the committee to ensure that the SBA has the resources it needs to continue to help propel the economy.

[The prepared statement of Ms. Guzman follows.]

**Congressional Testimony Prepared for SBA Administrator Isabella Guzman
U.S. Senate Committee on Small Business and Entrepreneurship
March 20, 2024**

Chair Shaheen, Ranking Member Ernst, and distinguished members of the committee, I appreciate the opportunity to join you today to discuss the U.S. Small Business Administration's advancements in innovating and retooling our programs, deepening outreach to business owners across the Nation, uplifting underserved communities, and supporting our small businesses.

America's 33 million small businesses are giants in our economy, delivering nearly two-thirds of net new jobs, employing nearly half of our private sector workforce, and producing over 40 percent of the Nation's economic output. Each day at the SBA, we work to ensure that our small businesses and innovative startups have the tools, resources, and support they need to start, grow, and expand their businesses.

When I was confirmed by the Senate in March 2021, we were still facing unprecedented job losses from the COVID-19 recession, and the SBA was scaling dramatically to save small businesses who were facing revenue losses and were unsure if their business would survive. Restaurants, retailers, hotels, childcare businesses, and performing arts venues, among others, were struggling to keep their doors open.

President Biden understood the challenges facing small businesses, including minority-owned small businesses, and that is why his American Rescue Plan provided essential support to the very small businesses that are cornerstones for our communities. Every member of this Committee knows a small business that wouldn't be open today if not for the support of the American Rescue Plan. Moreover, every member of this Committee knows a small business whose ingenuity enabled them to not only stay open, but also to expand and grow.

SBA's COVID-19 support—more than \$450 billion during the Biden Administration above and beyond our core SBA programs—was a critical lifeline for our small businesses when they needed it the most. The Paycheck Protection Program (PPP) helped small businesses and nonprofits retain their employees, strengthen workforce offerings, and manage overhead when revenues fell short. The COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program provided working capital to help small businesses continue to weather the worst effects of the downturn, supply chain disruptions, inflation, and workforce shortages. The Restaurant Revitalization Fund (RRF) and Shuttered Venues Operators Grant (SVOG) program saved our mom-and-pop restaurants, cafes, breweries, stages, cultural venues, and performing arts centers.

Our historic level of investments in small businesses, combined with landmark legislation such as the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act, set the stage for America to have the strongest economic recovery of any developed country in the world.

Last year when I appeared before this Committee, leading economists were predicting an economic downturn that would negatively impact small business. Members were discussing whether a recession was imminent and whether small businesses could adjust to increased interest rates and costs.

Thanks to the historic public investments by Congress and the Biden-Harris Administration, the U.S. economy is powering ahead. Inflation has slowed over the past 18 months. Interest rates are down from their recent highs. Wages are rising faster than prices. And with 15 million more jobs than when the President took office, labor markets are strong and stable.

It's no wonder, then, that small businesses are feeling hopeful about the future. A study by PNC found that small business optimism is the highest in 22 years. Census' Business Formation Statistics data shows record number of entrepreneurs have decided to start a small business. Under the Biden-Harris Administration, we have seen the top 3 years of small business application filings on record. This historic small business boom has seen nearly 17 million applications since the President took office. In 2023 alone, a record 5.5 million Americans filed an application to start a small business.

Starting a small business is not for the faint of heart. For all Americans, the journey of entrepreneurship requires perseverance, ingenuity, and a lot of hard work; for historically underserved communities, that journey may include additional barriers to small business ownership. But these "acts of hope," as President Biden calls them, show that the entrepreneurial spirit of the Nation continues to power our economy.

The Biden-Harris Administration's small business jobs boom is also one of the most diverse in history, with women and people of color starting businesses at the highest rates. Women, minorities, Veterans, and rural communities are powering the economic recovery. Further, SBA lending to underserved markets including startups, rural, low-income, veterans, and minorities has increased as a result of transformative reforms in SBA lending. Loans and loan volume to Black-owned businesses have more than doubled, loan volume to Latino-owned businesses has doubled, and lending to women-owned businesses is up 70%.

This is what happens when we have an Administration that is committed to building an economy from the middle out and bottom up, with economic opportunity for all Americans.

In Cincinnati, I had the opportunity to visit the Water Lily Learning Center – a Black- and woman-owned community-based preschool that provides early childhood education in partnership with the Cincinnati Preschool Promise initiative. This initiative has provided more than 3,000 families in Ohio with preschool tuition assistance at centers like Water Lily. But it was the support of the SBA that allowed Water Lily to survive the pandemic and provide affordable childcare options for working families. Center Director Regina Morris told me that support from the PPP allowed the center to keep their staff afloat while their COVID-19 EIDL loan provided affordable capital to keep the business on solid ground.

In Kansas, I met Mike Bergmeier of SheildAg which designs and manufactures agriculture equipment from combine harvesting aids to fertilizer application products. Mike is an experienced exporter – sending American-made products to countries throughout the world – including Ukraine. Mike used the SBA’s State Trade Enhancement Program (STEP) to bring a delegation of Ukrainian agricultural businessmen to Kansas. The trip was a “resounding success” according to the local papers and the relationships developed during that time not only led to new business, but Mike is paying it forward. With the help of Senator Roger Marshall, Mike and his business partners collected 300 protective vests and helmets from Kansas law enforcement to help Ukraine on the battlefield.

Meeting with small business owners across the Nation continues to inspire me about the important work of the agency. They have told me about the challenges they face and finding affordable capital often tops the list.

Accessing startup and growth capital is the lifeblood of any business and it’s the area where the impact of the SBA is often felt the most.

In 2023, SBA delivered more than \$50 billion across our lending, investment and disaster programs. I’m pleased to report that we have made significant progress and reforms to address persistent capital gaps in small dollar lending and growth capital for critical industries, including those of importance to national defense. We’ve transformed the SBA, making our programs more customer centric, technology forward, and equitable than ever before to boost access to capital, federal contracting opportunities, and tools and resources for small business owners to grow and thrive. Our changes to the popular 7(a) and 504 loan programs are helping us meet more small businesses where they are. The lending reforms modernized the underwriting process, strengthened the network of SBA lenders, and make it even easier to work with the SBA. These modernization efforts and rule changes mean lenders face less red tape and have greater flexibility to make the type of low-dollar loans that are key to supporting historically underserved communities. Data shows that a lack of smaller loans has disproportionate consequences for the smallest of the small businesses and startups - especially for those owned by minority, veteran, rural, and justice-impacted individuals.

SBA rescinded an outdated moratorium that limited the expansion of our private lending network and growth of small dollar lending in the 7(a) Loan Program. For the first time in more than 40 years, SBA awarded three new licenses in the Small Business Lending Company (SBLC) program to companies in Alaska, Colorado, and Arkansas.

SBA transitioned community-based lenders in Community Advantage (CA) out of their pilot license into the new, permanent CA-SBLC license. The CA-SBLC license will allow lenders to grow and scale their loans in underserved communities and banking deserts. The transition has been very popular, and SBA now has 142 CA-SBLC enrolled lenders, 39 more than the number enrolled under the pilot program just two years ago.

We are continuing to simplify and make improvements in our programs to ensure that SBA loans, especially small dollar loans, are attractive not only to borrowers, but also to lenders. With a streamlined affiliation standard, we are aligning with best industry practices by focusing on who actually owns a business and following industry best practices on underwriting. SBA has instituted up-front eligibility checks to ensure that lenders have certainty that their loan is eligible for SBA's guarantee.

There are many other benefits of SBA's historic transformation and simplification of its capital programs. For example, SBA is finalizing a proposed rule to simplify the agency's review of requirements for its loan programs, which would ensure that an entrepreneur's past involvement in the justice system no longer stands as a barrier to securing an SBA loan that a lender would otherwise approve on the merits. Considering the disproportionate impact that our justice system has had on Black and Latino communities, SBA is optimistic that this rulemaking will further open entrepreneurship as a pathway to economic stability and prosperity for those with justice system involvement in their past.

Additionally, as a result of the rulemakings under this Administration, employee ownership has been made more accessible. For the first time, employee groups may use an SBA loan for a partial buyout, opening access to a promising ownership conversion pathway for the "silver tsunami" business owners looking for the right kind of exit.

We also know that there are persistent gaps in patient and growth capital for frontier technologies and critical industries, like defense. I've also transformed our Small Business Investment Company (SBIC) Program to incentivize equity and growth capital by implementing streamlined licensing, longer deferments, and fund-of fund opportunities. Last month, SBA licensed its first ever Accrual SBIC, Pelion Ventures, in Salt Lake City. Pelion's SBA accrual license will allow it to pay back the Federal Government and support long duration investments. That will empower Pelion, and the other funds we will license under this new rule, including our new SBIC Critical Technologies partners, to drive the same type of bold innovation that SBIC previously supported companies such as Apple, Intel, FedEx, Tesla and many others.

SBA has also prioritized preventing fraud across our programs. As a result of process improvements, all SBA loans in our core programs are screened for fraud prior to disbursement as part of our eligibility check. Maintaining the core integrity and oversight of SBA's lending programs will always be my top priority.

SBA continues to work in close partnership with the Inspector General and law enforcement to recover stolen taxpayer funds in the pandemic programs. Under my leadership, SBA implemented the GAO recommendations to improve SBA operations by putting in place best practices for fraud prevention, detection, and response, many of which are now overseen by our new Chief Risk Officer. Our aggressive actions and investments mean that SBA is more strongly positioned to combat fraud, waste, and abuse across our programs.

In addition to capital, revenue growth opportunities are a top priority at the SBA. For example, I believe there's never been a better time for small businesses to sell to the Government. As Federal agencies, states, and municipalities implement the Bipartisan Infrastructure Law, CHIPS and Science Act, and Inflation Reduction Act, small businesses across the country are winning contracts to pave roads, repair bridges, lay fiber, install EV charging stations, retrofit homes, and lead numerous other investments in our future.

When small businesses participate in historic investments like these, they increase competition across economic sectors, ultimately delivering better value to the taxpayer through lower prices, higher quality goods and services, and more job opportunities, including more local jobs with more dollars recycling in local communities. That's why President Biden and I remain steadfast in our commitment to SBA's contracting programs that deliver opportunity to socially and economically disadvantaged business owners. After implementing SBA's government-wide Equity in Procurement reforms, the Administration hit the first of President Biden's targets a year early, breaking records for federal contracts going to Small Disadvantaged Businesses (SDBs) in both FY2021 and FY2022.

As we drive forward toward the President's goal of delivering 15% of Federal contract dollars to SDBs by 2025, I continue to make clear: SBA's 8(a) Business Development Program is open for business and we will improve outcomes for all small business contractors to successfully bid on and win government contracts.

Helping communities recover and businesses re-open when disaster strikes remains a critical part of SBA's mission. In partnership with other federal emergency response agencies, SBA has been on the ground to help small businesses, homeowners and renters recover after disasters. In 2023, SBA responded to 472 disasters, from severe flooding in New England to wildfires in Maui. This included 69 presidential declarations with Federal partners and 16 governor-declared SBA declarations. For the first time in 30 years, SBA updated the caps for our home disaster loan program – allowing eligible property owners to access up to \$500,000 to repair physical damage and all homeowners and renters to access up to \$100,000 to replace personal property. Additionally, under new authority granted by Congress, SBA has streamlined its declaration process for disasters in rural areas to help expedite relief. That law is already having an impact – SBA declared 14 rural disasters in 2023 alone.

SBA's record results across its programs were made possible by our work to prioritize customer experience and meet our small businesses where they are:

- Late last year, SBA launched its new disaster loan application portal. So far, SBA has processed over 59,000 loans in the new platform. The mobile-first application is completely digital and takes 17 minutes on average to complete. Previously, it took SBA 105 days on average to disburse a secured loan. It now takes 30.
- Pursuant to the National Defense Authorization Act for Fiscal Year 2021, SBA successfully transitioned the Veterans Certification (VetCert) program from the Department of Veterans Affairs to the SBA. This certification platform is the gold

standard for all of SBA's certification programs and is already helping even more veteran-certified small businesses access government contracts. This year, VetCert will become part of a new, unified MySBA Certification platform, providing small businesses with the ability to apply for and manage all of SBA's small business certifications in one place (VetCert, 8a, HUBZone, and Women Owned Small Business (WOSB)).

- Finally, just weeks ago, SBA launched its expanded Lender Match tool, so that small businesses seeking capital can compare matched lenders in one place and have the opportunity to connect to SBA's broad network of bank and private lenders.

Let me highlight a few priorities in the President's Budget for Fiscal Year 2025 for SBA:

1. \$58 billion in loan and investment authority for SBA's capital programs;
2. \$70 million to support the necessary fraud oversight and effective management of SBA's pandemic programs;
3. \$15 million increase for OIG to carry out oversight of SBA's programs, including audits and investigations of the agency's COVID-19 programs;
4. \$492 million for major disasters pursuant to the Robert T. Stafford Disaster Relief and Emergency Act, including \$349 million to support the necessary oversight and servicing of the COVID-19 EIDL program and related pandemic programs;
5. \$30 million for SBA's Growth Accelerator Fund Competition, Regional Innovation Clusters, and the Federal and State Technology Partnership Program, so that our small businesses have access to resources and support they need to remain competitive in the innovation ecosystem.

Making sure small businesses have access to the capital, tools, and resources they need to fully leverage every growth opportunity remains our focus at the SBA.

The Biden-Harris Administration has made significant and lasting progress at the SBA and across the federal government, building the economy from the middle out and bottom-up for all Americans. Now we are working to foster strong, equitable, sustainable growth and resilience for all of our small businesses.

I look forward to working in partnership with the Committee to ensure that SBA has the resources that we need to help America's small businesses grow and sustain our economic growth.

Thank you again for the opportunity to join you today.

The CHAIR. Thank you very much, Administrator Guzman. I think there is no doubt that the SBA has been critical, both during the pandemic, the PP program, and the SBA's ability to administer that.

The programs that you have administered since that time under ARPA have allowed so many small businesses to survive that pandemic and continue to grow. I am sure all of us on the committee could point to businesses in our home States that have survived because of the work of the SBA.

And one of the pieces of that, that I think is so critical, has been the district offices. And it is something that we have talked about on a number of occasions. And that is why it is hard for me to understand why the SBA appears to be scaling back that investment in district offices in favor of centralizing operations in D.C.

And I would just point to a March 2023 report from SBA that called—was called for in the 2023 Financial Services and General Government bill, and it showed that field staffing levels in Fiscal Year 2022 were down 5 percent from Fiscal Year 2019, and that budgets from the Office of Field Operations, the office that oversees and funds field office activities, are down 30 percent.

The Fiscal Year 2024 Senate FSGG Appropriations Report contains language that encourages SBA to set a floor at seven full time equivalent staffers per State and district offices and requires SBA to fill vacant positions below that level.

So can you talk about the changes in funding or staffing at district offices, and what you can share with us today about what SBA is doing to comply with the language in the 2024 FSGG bill.

Ms. GUZMAN. Yes, thank you for—[technical problems]—that. The field offices, as well as our resource partners, are key navigators for our small businesses to connect to SBA's core programs, the capital programs, the certification programs that are running here at the headquarters offices and at the SBA in D.C.

Our, you know, field staff—obviously, we have vacancies across the country that we are continuing to focus on filling and competing in the marketplace to get those positions filled. And we have a remained commitment to ensuring that we can be staffed at the levels.

I will point out that since 2018, SBA has not received its full S&E request for funding. We are continuing to manage in a resource restricted environment, you know, while also balancing, of course, the COVID pandemic.

And, we have also been able to source additional support in the field, obviously, to try to help us address the COVID pandemic. We are servicing in responsibilities, but clearly, the agency requires resources to continue to grow on the ground.

We will obviously take every effort to make sure that the field offices are fully staffed, that they have the expertise on the ground around contracting, as well as capital, and the core outreach programs that they so desperately need in small businesses around the country.

The CHAIR. And do you have a list of those offices that have openings that have been either approved and can't hire people or have not been approved to fill those openings?

Ms. GUZMAN. I know—I don't have that, of course, handy, but, I mean, my team would be able to give you more insights. I know that there happens to be one in New Hampshire that was mentioned to me recently.

Of course, that is a vacancy that is trying to be filled. So, you know, we make every effort, of course, to not only balance our resources and work within the realm of what we are budgeted, but in addition to that, obviously try to expeditiously clear these vacancies.

The CHAIR. Can I ask that the SBA provide this committee with a list of those district offices and what the current level of staffing is in those offices?

Ms. GUZMAN. I am always happy to cooperate and respond to your requests.

The CHAIR. Thank you. I appreciate that. Another area that I mentioned in my opening statement, where I was surprised to see a budget cut, was with the Small Business Development Centers.

They are the SBA's largest resource partner. In Fiscal Year 2023, SBDCs exceeded their baseline goal for the number of unique clients served by over 30 percent. In New Hampshire, our SBDC network is vital to the small business community. This past year alone, it served over 3,400 entrepreneurs and over 200 communities.

It helped businesses raise 37 million in new capital and contributed to the creation of retention of almost 630 jobs. And yet, I know that there has been a commitment on the part of SBA to create a community navigators pilot program. I am concerned that the funding that has been cut from the SBDCs is being used for that community navigators program.

And I understand that each Administration has their own priorities, but it seems to me that while the community navigators have helped about 38,000 clients at a cost of \$2,600 per client assisted, over the same period, the SBDC has helped almost 632,000 unique clients at a cost of about \$440 per client assisted.

So, it doesn't seem to me that that is a reasonable trade off. And so, can you help me understand why the cut in the budget for the SBDCs and what that funding is going to address?

Ms. GUZMAN. Yes, happy to. And the SBDC—I have slightly different numbers, but the community navigator pilot program, you know, did directly counsel in the 30,000 range. But they also reached 350,000 people. The point of that program was to be navigators, to connect them to SBA's existing resources, not duplicate.

The SBDCs, I show, reach 326,000. And my question really is, there are 33 million small business and innovative startups. You know, we need to do more to reach the 32.7 million other small businesses every year.

And our efforts to try to incentivize new networks, new entrepreneurial ecosystems, that have trusted local relationships that can meet businesses where they are, is really our commitment and continuing to request funding for the community navigators pilot program.

We believe all these resource partners do incredible work in the community. You know, after 40 years of performance, the SBDCs clearly do a wonderful job. I have met with them, with you, and

your State, and we want them to continue to perform, but we do know that they don't serve everybody.

I was recently in Michigan, met with a small business owner who brought the SBDC along to show, you know, what they have done to help advance her business. But just a couple hours later, I met with another business owner, talked to them about the SBDC and that she should try to get help.

And she just said, no, no, no, that is not for me. Whether it is the university setting in that case or what, I am not sure, but obviously we are not meeting everybody and we are just trying to make sure that we serve all, as many as possible, of those small businesses and connect them to SBA's resources.

The CHAIR. Thank you. Senator Ernst.

Senator ERNST. Thank you, Madam Chair. And thank you, Administrator Guzman. As I mentioned in my opening statement, I do have grave concerns about SBA's oversight of the new SBLC licenses. And Administrator Guzman, please answer yes or no. Was SBA aware that Funding Circle had an investment from the China based investor Credit Ease when it approved the license?

Ms. GUZMAN. I can't speak to the application review as that was done by my team.

Senator ERNST. Okay. Thank you. What kind of due diligence is the agency doing on the potential licenses if it didn't flag and evaluate that potential risk?

Ms. GUZMAN. We fully evaluate their safety and soundness and, you know, make sure that we are evaluating their performance in their loan portfolio in particular, you know, in terms of defaults and performance. And that is the, you know, the focus of our thorough review as we review all of our licenses and license applications.

Senator ERNST. Okay. But I am concerned, and I do want to be clear that the SBA shouldn't take lightly any of those business relationships that might potentially expose our small businesses' proprietary financial information or provide a windfall to the CCP or any foreign adversary.

Especially in today's day and age, we see what is going on with TikTok. We see so many other Chinese investments that are coming into the United States. I think that would be of grave concern to those that are going through the vetting process.

Ms. GUZMAN. I know that the Colorado based U.S operations of Funding Circle that I know is, you know, obviously in the news lately. I know that they in particular, you know, continue to work with the SBA through this application process. They are not finalized.

They hope to do SBA license—or excuse me, SBA loans in the coming weeks as they—as you read and as you announced. But we continue to work with them, and I will be sure to flag these concerns to my team as we move forward.

Senator ERNST. Right. And again, so you are aware that the U.S. based part of that in Colorado is up for sale. So are—you are going to continue—let's just be very clear because I know you spoke to the House this morning.

And you said that the SBA has not fully approved Funding Circle yet, but you believe they will start making loans in the next few

weeks. And you restated that here. But it does seem, if we look at this situation, that they are using their SBLC license as a bargaining chip for their sale.

So, you stated you will continue to allow Funding Circle to start making those SBA loans even though you know they are for sale.

Ms. GUZMAN. Let me explain as well that 14 existing licenses in the SBLC program have been in existence for multiple decades. Those licenses have sold at least 60 times. Every time a license is sold, it is reviewed by the SBA team for re-approval.

So, any sale of a license is reviewed by the SBA—approved. The SBA could deny, as it has in the past, denied an application for the sale of an SBLC license to a specific entity.

So, that is, you know, something that the SBA is familiar with doing and operating over multiple decades, and this case would be treated in the same way.

Senator ERNST. Okay. Well, we do know that Funding Circle has been lobbying for this license and has been actively trying to loosen the underwriting. They don't have the capital to offset the new SBA loan losses, and they have an active foreign investor that may pose a national security threat.

The relationship between SBA and Funding Circle is very suspicious, again, with everything else that we see going on with the CCP. And I do urge you to go back and scrutinize that, and of course, share our opinion or my opinion with those that are making those decisions.

So, Administrator, SBA direct lending has historically seen very large losses, sometimes over 40 percent. And Clinton Administration officials have stated the subsidy rate is 10 to 15 times higher than for the guaranteed programs.

And I ask unanimous consent to enter into the record the testimony of the former SBA Administrator Bowles. Unanimous consent to enter into the record?

The CHAIR. Without objection.

[The information referred to follows.]

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 S. Hrg. 103-583
**HEARING ON THE PROPOSED FISCAL YEAR 1995
 BUDGET FOR THE SMALL BUSINESS ADMINIS-
 TRATION**

P/63-83

HEARING
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS
SECOND SESSION
ON
HEARING ON THE PROPOSED FISCAL YEAR 1995 BUDGET FOR THE
SMALL BUSINESS ADMINISTRATION

FEBRUARY 22, 1994



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HEARING ON THE PROPOSED FISCAL YEAR 1995 BUDGET FOR THE SMALL BUSINESS AD- MINISTRATION

TUESDAY, FEBRUARY 22, 1994

**U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
*Washington, DC.***

The Committee met, pursuant to notice, at 2:19 p.m. in Room SR-428A, Russell Senate Office Building, Hon. Dale Bumpers, Chairman, presiding.

OPENING STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. The Committee today begins a series of hearings which will lead to a comprehensive reauthorization of Small Business Administration programs before the end of this year. We will begin by focusing on President Clinton's budget proposal for SBA, which was submitted two weeks ago.

First, it is clear that this budget is vastly different from those submitted to Congress for the last 12 years. Not only does it not propose to abolish SBA or any of its major programs, but in fact it proposes to retain last year's record high level of funding for the section 7(a) guaranteed bank loan program and to increase significantly two of SBA's other large lending programs, section 504 development company debentures and the SBIC lending and equity investment programs.

These increases total \$1.55 billion compared with fiscal year 1994 funding and these programs together would provide a total of \$11.65 billion in debt and equity capital for American small business if fully funded and implemented.

The Clinton Administration understands two economic realities which may seem paradoxical: One, that small business has been and continues to be the engine of our economic growth; and two, that small business' number one problem has been and remains the difficulty of finding adequate capital at an affordable cost to finance this continued growth and job creation.

I cannot tell my colleagues and the American people how gratifying it is, after many years in the wilderness, to have a President who understands basic economics, who believes that government can make a difference in the lives of our people and our economy, and who hires first-rate people who are capable of carrying out these programs.

(1)

This budget is not without some pain and sacrifice and there are portions which give me considerable doubt. On the whole, however, it is a vast improvement for almost every SBA program and for the beneficiaries of these programs.

I would also remind my colleagues that this budget would not have been possible if this Committee had not come together in a bipartisan fashion last summer and speedily enacted a truly landmark bill which cut the cost of the 7(a) program by more than half. Because of our efforts and those of our House colleagues, Administrator Bowles was able to go to the OMB and honestly say: We gave at the office.

Had we not already given more than a pound of flesh, we could not come close to funding program increases of the magnitude which are being proposed today.

I look forward to the testimony of Administrator Bowles and I will have a number of questions for him, as will my colleagues. I would remind Senators that the Administrator has a time constraint today and needs to leave before 4 p.m. His staff and program administrators can stay to answer any further questions if there are any.

Next week we will hold another hearing which focuses specifically on the status of SBA's 7(a) loan guarantee program and its future, as well as the all-important SBA disaster lending program, which has been needed all too frequently in recent years and months.

Mr. Bowles, we are always honored to have you with us and we look forward to hearing your testimony.

I am sorry, Senator Hutchison, that was not a deliberate slight. You are rather slight and I did not see you. Do you have an opening statement you would like to make?

Senator HUTCHISON. No, Mr. Chairman.

The CHAIRMAN. Thank you.

STATEMENT OF HON. ERSKINE BOWLES, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION ACCOMPANIED BY: JOHN COX, ASSISTANT ADMINISTRATOR FOR FINANCIAL ASSISTANCE; GREG WALTER, ACTING COMPTROLLER; AND ARNOLD ROSENTHAL, DIRECTOR, OFFICE OF PLANNING AND BUDGET

Mr. BOWLES. Thank you, Mr. Chairman. Mr. Chairman, I have with me today Arnie Rosenthal, who is Director of our Office of Planning and Budget; Greg Walter, who is our Deputy Comptroller; and John Cox, who is the Assistant Administrator for Financial Assistance.

If I could, I would like to request that my testimony be placed in its entirety into the record. Let me just, if I might, talk to you from a few notes that I made if that is okay and then take any questions that you have.

First of all, I do believe that we have accomplished a lot during our first nine months together as a team at the SBA, and I would like to stress that we are a team because I truly believe that is what we have become. This team has been assembled without regard to race, without regard to gender, and without regard to party affiliation. It is a team that truly is dedicated to helping

small businesses, dedicated to working together to reinvent the SBA so that it can truly become a more efficient, more effective, more user friendly organization.

Our accomplishments during our first nine months together center around, first, a reorganization plan which has truly been developed from the bottom up, a reorganization plan that truly will allow us to shift our assets to the field. As I have often said to you and to others, I subscribe to the management philosophy that you ought to put your assets where your customers are. Our customers are the owners of small businesses and they are in the field.

Since the beginning of 1993 and to the present time, we have been able to shift approximately 114 people out of Washington.

The CHAIRMAN. How many?

Mr. BOWLES. Approximately 114 out of Washington and approximately 334 out of our regions. Approximately 287 people have been added to our districts, resulting in an overall downsizing of employment of 161. From 1993 to 1995 we will be able to further expand the shift of our people to the field.

We have also held a series of eight town hall meetings where I have had a chance to listen to our customers, to hear their concerns and ideas, and then to report those back directly to the President. At these town hall meetings, I have met with over 2500 small business owners, over 400 lenders, and over 1,000 SBA employees. I was amazed to find out that many of those SBA employees had never before met an Administrator.

These meetings have had a big impact on our programs, as you will see from the list of items that I will cover that we have worked on so diligently during the last nine months. First of all, we have revised our 7(a) program, which you mentioned, Senator, taking over \$180 million of cost out of that program by reducing the subsidy rate and being able, at the same time, to generate a program that can fund up to \$8 billion worth of credit to the small business community.

For the first time in many, many years, an Administrator can live up to the promise that we did not have to come back to you for a supplemental appropriation for the 7(a) program. We do have enough money in that program.

Second, we have been able to take some of the bureaucracy out of our loan programs. I cannot tell you the number of small business owners I have met who have said over and over again that the paperwork involved in borrowing money from the SBA has historically been a nightmare. Senator, I hold before me an application for an \$18,000 loan from the SBA in San Antonio, TX, or I should say this was the application for an \$18,000 loan. This (indicating) is the application today. You truly can take the bureaucracy out of the government.

In addition to streamlining our programs and expanding our 7(a) program, we have also, as a response to our customers, developed a working capital line of credit program for our small business customers that truly will work. We have developed an export revolving line of credit program that truly will meet the needs of our small business customers. We have taken our SBIC program, which has truly been a troubled program, and we have brought in new

management from the outside. That is a program I feel we have well in hand.

In addition, in our 8(a) program, another troubled program at the SBA, we have been able to see where the problems are and come up with a recommended solution.

We have also laid the plans to accomplish much more. The SBA at long last finally has a real action plan, with real goals, real objectives, and real time lines, with real buy-in from our districts, real buy-in from our regions, and from the people in our central office.

This action plan is built around the following initiatives: First, we will develop several loan servicing centers by expanding our Fresno center to cover Regions 6 through 10; we will develop a new loan servicing center in Little Rock, Arkansas, to service Regions 1 through 5, and a loan processing center in Sacramento. This will allow us to operate more efficiently, more effectively, and at lower cost.

We will also expand our export assistance centers, which were begun in 1994. We opened up four of these in 1994 with the Commerce Department and the Eximbank and the SBA all being equal partners in these export assistance centers. We will open up ten more in 1995, at a cost of \$3.2 million.

In addition, we will develop one-stop capital shops within the empowerment zones and the enterprise centers, bringing together the SBA's management assistance programs along with its capital programs to truly meet the needs of those people in our poor rural communities and in our inner cities.

In addition to streamlining the SBA's forms with our LOWDOC program, we will also develop a Loan Express program. This will be a program where we will utilize the bank's own forms and operate with only a 50 percent guarantee.

We will also be able to bring forward this year our SBIC Participating Securities program, which we believe can go a long way toward re-invigorating the venture capital industry and really getting capital into the hands of new startup small businesses.

We will also put a renewed and additional emphasis on those areas that have clearly been starved for capital in the past. Those areas are in our poor rural communities, in our inner cities, and those small businesses that are owned by women and by minorities.

In addition, we will also focus on those small businesses that are creating the most jobs, where we can get our most bang for our buck by taking a dollar and putting it where it will create the largest number of jobs.

Lastly, we will bring to you the 8(a) reinvention program and our 8(a) program, which will focus on training, on business development and on greater access to capital.

I would now like to highlight for you some of the other aspects of our budget request. First of all, in the salaries and expense area we are requesting \$11.4 million fewer dollars for 1995 than we had in 1994. Our full-time equivalents, our authorized personnel, will drop from 3,814 to 3,741.

But do not be fooled by those numbers. Even though we are authorized in 1994 to have 3,814 people, we will not have that number of people at the SBA because we just flat cannot afford it.

We will only be able to fund 3,633 people, or 181 fewer people, because we have had to absorb \$5.1 million in 1994 for locality pay and the only way we could absorb that was by reducing our number of people.

We are authorized in 1995 for 3,741 people, but we will only be able to fund 3,616, or 125 fewer.

In our SBDC program, we are requesting \$67 million, which is less than the \$71.3 million we will have this year. We are doing that, not because we do not believe this is a good program, but simply we had to make some difficult choices in order to be able to do our part to reduce our Nation's budget.

The CHAIRMAN. Did you say SBDC?

Mr. BOWLES. SBDCs, yes, sir.

The SBI program is a program which historically has been funded at approximately \$3 million. We are not requesting any funds for the SBI program. Again this is a program that we believe has lots of merit, but we had to make some very difficult choices.

We are also requesting no money for the tree-planting program, which was an \$18 million program in 1994.

We are requesting additional appropriations for training in 1995. We have available about \$1 million for training in 1994. We are requesting \$4.2 million for training in 1995, and the reason is simple: We have not spent enough money in the last 12 years on training. As you know, the prior administrations wanted to get rid of the SBA, and when you have a very short-term focus you do not spend money on things that give you long-term benefits. Therefore, our people truly have not been trained and we need to spend some catch-up money to train our people and train them properly.

Lastly, in our surety bond program, we are requesting \$5.4 million versus \$7.0 million in 1994. In order to reduce our budget here and cut our expenses by \$2.4 million, we will change the operation of this program and go to a complete preferred program, which now makes up about 22 percent of our business.

This is a program we have been testing with the larger sureties in this country over the last couple of years. This preferred program will still allow us to extend about \$1.8 billion of surety bond guarantees to the small business owners of the country, but will allow us to reduce our expenses by about \$2.4 million and 49 full-time equivalents. It will reduce our administrative costs. It will result in faster approval for contractors and it will result in faster claim payments to sureties.

It is not without some sacrifice. But again, in our efforts to do our part to really manage this budget and hold our expenditures down, it is a tough decision we had to make.

We are requesting new fees of \$26.4 million. Absent these fees, we would need \$26.4 million of additional appropriations. These fees are in our SBDC program, and for our SBA publications. They are also loan modification fees as well as fees to use our electronic bulletin board.

In our business loan area, we are requesting appropriation of \$318.1 million to fund \$10.5 billion worth of business loans. We expect to have carryover authority of about \$38.5 million, which will give us an additional \$1.5 billion, taking up our total available

funding capacity for business loans in 1995 to \$11.9 billion. This compares to only \$8.4 billion in 1994 and \$7.4 in 1993.

We are not requesting any funding for our direct loan programs. In 1994, we expect to spend about \$13.5 million on direct loan programs exclusive of the microloan program. That \$13.5 million, because of the very high credit subsidy rate, will only allow us to put about \$50 million of direct loans out in the marketplace.

We can take that same \$13.5 million and we can put out \$496 million of loans if we do it on a guarantee basis. That is the reason we are recommending going to a guarantee basis as opposed to a direct basis. It gives the taxpayers a lot more bang for their buck.

In our 7(a) program, we are requesting \$207.1 million to fund the \$7.5 billion program. Again, with the carryover we will be able to fund up to \$9 billion worth of 7(a) loans.

In our 502 and 504 Development Company programs, we are requesting \$12.4 million to fund the \$2.1 billion programs. This is double the amount we did last year. We are very proud of these programs, where the taxpayers get their biggest bang for their buck. The Development Company programs have a weighted .58 percent credit subsidy rate.

It is also a very important program to our cities and our towns working on economic recovery and economic development because it provides long-term funds specifically to assist in economic development and reconstruction.

In our SBIC program, we are requesting \$90.6 million to fund \$730 million worth of program. The vast majority of the increase in this program is about \$500 million for the new Participating Securities Program which the Congress, in a very bipartisan manner, passed a couple of years ago.

The microloan program is a program that we are recommending to go from a direct program to a 100 percent guarantee program. We are requesting \$7.9 million to fund a \$65 million program, compared to an estimated \$27.5 million program in 1994.

The CHAIRMAN. Erskine, what were those figures again? It is going to cost us how much?

Mr. BOWLES. \$7.9 million to fund \$65 million worth of program.

The CHAIRMAN. If you go to the guaranteed loan?

Mr. BOWLES. Yes, sir. That is at a 12.16 percent credit subsidy rate.

In our disaster operations, I would like to first of all thank you very much for releasing the contingency funds and also for the supplemental appropriation that you gave our agency to work with the enormous disaster that we have in California now. Let me just give you a feel for the enormity of this disaster.

In the first 15 days of Hurricane Andrew, we had interviews for loans at the SBA of just under 19,000. In the first 15 days of the California earthquake we had interviews of just over 242,000 compared to 19,000.

In the first 15 days of this earthquake, we received over 19,000 applications for loans. Now, we have really shortened the forms, as you have known, and taken a lot of bureaucracy and a lot of paperwork out, so it is easier for someone to apply for a loan now. That 19,493 applications coming back compares to only 599 in the first 15 days of Hurricane Andrew.

To date we have had 314,000 interviews and have received over 56,000 applications for loans to the SBA. We now have 1,926 people on the ground in California. It is an enormous disaster.

We believe, thanks to the contingency funds that you released as well as the supplemental appropriation you passed, that we will end this year with approximately \$195 million, which will fund about \$849 million worth of program. At this time we believe that with the appropriation request we have made of \$52.5 million, that that will give us adequate funds to meet the needs of not only the carryover from the California earthquake, but the other normal disaster years, if there is such a thing any more, next year. And we believe that we can now do that without having the interest rate on the disaster loans raised to the Treasury rate plus one percent.

In the 503 program, as you know, Senators, this is a program that has, to say the least, a very onerous prepayment penalty. We are requesting \$30 million to help offset the onerous prepayment penalty contained in the 503 program. This \$30 million appropriation would be used to pay Treasury the differential between the 503 and 504 prepayment penalties.

In conclusion, we are requesting appropriations of \$806 million in 1995. That is \$402 million less than what was appropriated in 1993 and, as you say, that is while our business credit programs have grown from \$7.4 billion in 1993 to \$11.9 billion.

I will be happy to take your questions.

[The prepared statement of Mr. Bowles follows:]

PREPARED STATEMENT OF ERSKINE BOWLES

Mr. Chairman and distinguished members of this Committee, it is again a pleasure for me to appear before you. I believe that we are embarking on a very exciting period for small business, and I appreciate this opportunity to appear before you to discuss some of the Administration's plans for the SBA over the next few years. The President and I are committed to making great things happen for small businesses in our Country.

This Administration recognizes that small businesses are an important part of the overall effort to create and sustain a pattern of steady domestic economic growth and job creation. The President is firmly committed to helping small businesses start, prosper and grow. It is our goal to ensure that small businesses have the Federal assistance they need to play their part in sustaining the economic recovery. I am working side-by-side with the President to develop the SBA programs and plans to make this goal of sustained economic growth a reality during this Administration. Over the last year I traveled across the Country talking to over 2,500 small business owners and 400 small business lenders at town hall meetings in Atlanta, Cleveland, Des Moines, Hartford, Houston, Los Angeles and Portland. The President and I wanted to know what it is that the Federal Government can do--what programs and services can we refine or develop--to help these businesses survive, grow and prosper. We know that it is the products and services that small businesses create, along with the employment that activity implies, which are critical to the Nation's economic health. As you might expect, over and over again

I heard that small businesses lack access to capital to meet their basic business needs, whether that need involves commercializing an idea, purchasing inventory and equipment, or meeting a payroll. This was particularly true for those small businesses located in inner cities and poor rural communities, and those owned by minorities and women who need loans for amounts less than \$200,000.

Without that all-important capital, many businesses cannot survive; and clearly without capital, small businesses cannot grow and cannot create jobs -- it's as simple as that. And without these businesses we will not have a sustained and widespread economic recovery. It is therefore vitally important that we, the Administration and the Congress, work together to ensure this critical need is met through full funding of the 7(a) and other SBA loan programs and that these programs continue to be authorized under the Small Business Act at sufficient levels in FY 1995 and beyond. As you know, the current authorization for our appropriations in Section 20 of the Small Business Act will expire at the end of FY 1994. In addition, SBA's authority to enter into cosponsorships with the private sector and our authority for the Preferred Sureties program will also expire at the end of FY 1994. This reauthorization and other legislative actions will be forwarded to the Congress shortly as part of our FY 1995 Legislative Package.

The FY 1995 budget request for the SBA that has been sent to you by the President recommends \$11.9 billion in business lending for small businesses, including \$9.0 billion in 7(a) lending, \$2.1 billion in Development Company lending, \$730 million in Small Business Investment Company lending and \$65 million in Microloan lending. The \$9.0 billion for 7(a) lending is comprised of an FY 1995 request for \$7.5 billion plus \$1.5 billion that we project to be carried forward from FY 1994. Also included in this request is \$1.8 billion in new surety bond guarantees, and \$412 million for disaster lending.

REINVENTING/STREAMLINING THE SBA

Having spent the vast majority of my career in the private sector as a businessman, I understand the value of knowing your customers and their needs. But it is equally important to have the resources, programs, and delivery systems to meet those needs. To promote reinvention, streamlining, and empowerment at SBA, I actively sought ideas and suggestions from three sources: our primary constituents, small businesses; our partners, the lending institutions; and SBA employees, who meet our customers face-to-face every day. I wanted to find out what really needs to be done at the SBA to improve the way we deliver services and programs, and to reach out to those small businesses that have in the past been unwilling or unable to make use of SBA's services.

The first and most significant thing I learned was that we had too many staff dealing with things other than our small business customers. SBA's organizational structure had been established well before the advent of modern communications and information technologies. One of the benefits of these modern systems is the way they support leaner, more efficient organizational structures. Today's technologies make it possible to reduce administrative overhead. Modern organizations use these efficiencies to streamline their organizations, take cost out of their structure, and to put more assets in direct support of their customers, which is exactly what we want to do at SBA.

In reviewing our organization, it quickly became apparent that there was simply no longer a pressing need for ten large Regional Offices along with a large, highly segmented Headquarters staff to further oversee and monitor programs. We had too many staff focused internally, at the expense of our customers and their business needs.

To remedy this imbalance, I asked for advice from both our customers and our employees as to how they felt we could overhaul the SBA to give better customer service. Our management team took this advice and developed a reorganization proposal that would reduce administrative overhead, take advantage of current technologies, and put more of our employees in our District Offices dealing directly with our customers, the owners of small

businesses. This proposal was sent to you in late 1993 and I appreciate the support this committee has given. It is a tool that I urgently need to bring life to our plan for an effective SBA. The reorganization proposal includes several program initiatives that we plan to phase-in simultaneously over the next several months. The net effect of this reorganization will be positive and it will position SBA to better meet the future needs of our small business customers.

There are two initiatives that we will undertake immediately to improve the delivery of programs and services to our customers. First, we are proposing to downsize our Headquarters staff by about 150 employees through a combination of attrition and voluntary reassignments. Approximately 60 employees have opted for voluntary re-assignments to our District Offices, and about 45 of these people are already in their new locations, at the District Offices where SBA programs are delivered to our customers.

We expect to achieve the remaining reduction of 90 staff by the end of the fiscal year through attrition and retirements, with no adverse personnel actions. This reduction of 150 employees in Headquarters will allow us to turn back to GSA leased space for annual savings of almost \$1.5 million. Even more importantly we will have additional people in the field delivering services to our customers, the owners of small businesses.

Certain employment reductions have also been mandated as part of the overall Federal Government downsizing effort. Our FY 1995 budget request reflects the Administration's target Full-Time Equivalent (FTE) level of 3,845 for the SBA, which includes 104 for the Office of Inspector General. This is a reduction of 75 FTE's from our FY 1994 authorized ceiling of 3,920, which included 106 for Inspector General (IG).

Second, we are proposing to right-size our current system of regional offices to shift an additional 150 employees from our Regional Offices to our District Offices where, once again, they will take positions in support of our customer service efforts. In total, we hope to have over 210 additional employees working in our District Offices by early summer if our regional reorganization plan is approved. This influx of resources should help bolster our ability to deliver our expanding assistance programs such as the 7(a) loan program. This program has grown by some 120 percent since FY 1991, when we approved \$4.1 billion in loans. Our current request for 7(a) funding will support \$9.0 billion in FY 1995 loans.

SPECIAL INITIATIVES

In addition to shifting our employee base in support of customer service, we have taken a hard look inward at how we manage and administer our programs at the SBA. Over the past nine months,

with valuable input from our employees, our customers, and our partners at the lending institutions, we have developed a number of exciting new initiatives to improve the way we deliver our programs and services to our customers. I firmly believe that when these changes are in place and coupled with our additional field office employees, SBA will be better prepared to serve the needs of all sectors of the small business community in all parts of the Country.

Let me briefly summarize for you some of these initiatives.

LOAN SERVICING CENTERS

Among Federal agencies, SBA has been very successful in its loan collection operations, because of the highly automated and centralized approach we have adopted. This success has been demonstrated year after year in our four disaster home loan servicing centers in New York, Georgia, Texas, and California. In addition, our business loan servicing center in Fresno, California has also proven to be highly effective. To build on this proven efficiency, we plan to expand our California business loan servicing center and create an additional servicing center in Arkansas.

Over time, these servicing centers will assume the routine servicing and collection of most of our \$25 billion loan portfolio,

a portfolio that has grown dramatically over the past few years due to the large increase in our business and disaster loan programs. In fact, our portfolio was only about \$19 billion at the end of FY 1991. This centralization will improve our overall operations by bringing greater uniformity and lower transaction costs to more of our loan portfolio. With our Fresno servicing center we have experienced a 9 percent increase in the currency rate of SBA-serviced loans. We would expect similar results from this expansion effort. Also, this centralization of loan servicing will increase collections to the Government and thereby contribute to lower loan subsidy rates. Finally, through the economies of scale that these servicing centers create, we will free up human resources in our District Offices. We anticipate that we may be able to reduce portfolio servicing personnel nationwide by about 26 percent over time. Our employees will then be able to spend more time on resolving the difficult liquidation cases and assisting loan officers in delivering CBA's programs to the local small business community.

We are also proposing a similar centralization at the front end of our loan making operation to process 7(a) loan packages assembled by our preferred lenders. Again, we expect this effort to result in significant process efficiencies and greater levels of service to our customers.

EXPORT ASSISTANCE CENTERS

We are developing several "one-stop" shop concepts to provide small businesses information and services covering a range of Federal programs from a single site. In the International Trade area, we are jointly sponsoring four Export Assistance Centers in Baltimore, Los Angeles, Miami, and Chicago with the Department of Commerce and the Export-Import Bank. These locations were chosen to conform to the geographic concentration of international trade businesses and to be in close proximity to state and local export assistance resources. These centers will offer small businesses a wealth of information and assistance from the Federal, State, and Local levels. We are working on plans to expand the number of centers to fourteen in FY 1995, with a projection of eventually having sixty such centers throughout the country. Our budget request includes \$3.2 million to fund these fourteen centers in FY 1995.

ONE-STOP CAPITAL SHOPS

We realize that Federal economic recovery efforts must also address rural, inner-city, and economically depressed areas. Most of these areas have been under served by Federal small business assistance programs and services. Therefore, we plan to establish "One-Stop Capital Shops" within the Empowerment Zones and Enterprise Communities designated by Secretary Cisneros and Secretary Espy.

These centers will supply a comprehensive mix of Federal programs and services that are necessary to enable small businesses to start-up, survive and grow in these capital starved locations. We will work closely in this effort with our SCORE and SBDC resource partners. Our Minority Small Business Program, Small Business Investment Company Program, Certified Development Company Program, 7(a) Program, Microloan Program and Business Information Centers will all support this initiative to provide business development, lending, counseling, training and technical assistance at these locations. We hope to establish nine centers by next year and our FY 1995 budget request includes \$18.6 million to fund the program costs of these centers. Of this \$18.6 million, \$15.1 million will be used to fund \$375 million in financial assistance through our 7(a), Certified Development Companies (CDC), Small Business Investment Companies (SBIC), and Microloan programs.

SIMPLIFIED LOAN APPLICATION FORMS

Another of our initiatives is the recent development of a simplified loan application package for small businesses which need financing in an amount less than \$100,000. These loan applications are only one page long, and focus more on the applicant's character and history than on traditional credit criteria such as collateral. Lenders will be required to liquidate any loan under \$50,000. The reaction of small businesses to this program to date has been

overwhelmingly positive. Since this program was piloted in San Antonio, Texas in December, we have approved 147 loans for \$7.3 million. The program has brought many small lenders back to the small business market. The average loan size to date has been under \$50,000 and the average small business being lent to has only four employees. 18.3% of the loans have gone to women, and 23.8% to minorities. We are currently reviewing the pilot effort in Texas, and hope to roll-out this program to the rest of the Nation very shortly.

SBIC PARTICIPATING SECURITY

With respect to venture capital, we are finalizing our plans to introduce the Small Business Investment Company Participating Security program. I have recently added to our management team an acknowledged expert in the field of investment lending who will reinvigorate this program and manage it with the integrity and attention it demands. This new participating security has been long awaited by the SBIC and small business communities, because it will enhance the availability of urgently needed venture capital. As you know, most new small businesses do not need current pay capital. This program recognizes that fact and will enable SBICs to provide small business with financing structured in a manner that will allow the small businesses to get the capital they need and a chance to turn a profit before being burdened with debt repayment. Our FY 1995 budget request includes \$500 million in

financing to support this new program. We anticipate that over the next three years between 150-200 SBICs will be formed with \$10-\$15 million of equity capital each from the private sector. This \$1.5 to \$3.0 billion of private sector capital combined with the leverage provided by the SBA could result in up to \$9 billion being infused into building our economy and creating jobs.

RENEWED FINANCING EMPHASIS

We are also modernizing our traditional loan programs to make them more effective in meeting the capital needs of all small businesses. These revisions will include additional emphasis on those areas that have been previously under served by the SBA and are starved for capital including women-owned businesses, veteran-owned businesses, and minority-owned businesses as well as those areas creating the most job opportunities.

8 (A) REVITALIZATION

We recognize the important role that minority businesses can play in the economic development and the revitalization of our economy.

Over the years, SBA's efforts to assist minority businesses have focused almost exclusively on companies interested in government contracting. We will expand the scope of the services

we provide to minority-owned businesses, working with our partners and sister agencies. Our program will make all of the programs and services offered by the Small Business Administration, including our finance programs, available to minority-owned businesses.

FY 1995 BUDGET REQUEST

I would like to now highlight for you some of the important aspects of our FY 1995 budget request.

BUSINESS LOANS

For business loans, we have requested a subsidy appropriation of \$318.1 million to support \$11.9 billion in loans. We are not requesting funding for any direct loan programs. As you know, the subsidy rate for these direct loan programs is 10 to 15 times higher than that of our guaranty programs. To get maximum leverage from limited Federal appropriations, we have proposed only guaranty programs for FY 1995. We hope that with the introduction of the many changes we are proposing to our lending programs, the traditional need for direct loans will diminish. In addition, our staff believes there are few if any loans the SBA makes on a direct basis that would not be made on a guaranteed basis.

7(A) PROGRAM

New subsidy appropriations for our popular 7(a) program are requested at \$207.1 million to fund a \$7.5 billion loan program, with an anticipated carry-over from FY 1994 of about \$38.5 million in subsidy budget authority to support a loan program of \$1.5 billion, for a combined FY 1995 program of \$9.0 billion. This program has grown from a FY 1991 level of \$4.1 billion, to \$5.6 billion in FY 1992, to \$6.4 billion in FY 1993, to a projected \$7.0 billion in FY 1994. This program carries a subsidy rate of 2.73 percent for FY 1995, compared with a 5.21 percent rate in FY 1993, and a 2.15 percent rate in FY 1994. The increase in the subsidy rate in FY 1995 is a result of technical reestimates and the inclusion of the empowerment zone initiative.

7(a) GENERAL BUSINESS
(Dollars in Millions)

Fiscal Year	Subsidy Rate (%)	Subsidy Budget Authority	Program Level	Increase	% Change
1992 Actual	4.85 %	\$272.8	\$5,624.3	\$ -	- %
1993 Actual	5.21 1/	334.0	6,409.9	785.6	14.0
1994 Estimate	2.15	150.5 2/	7,000.0 2/	590.1	9.2
1995 Request	2.73 3/	245.6 4/	8,995.0 5/	1,995.0	28.5

1/Weighted average, includes subsidy rate of 5.47% for eleven months and 2.75% for one month.

2/ Projected usage estimated at 12/1/93.

3/ Includes .49% for reestimation of secondary market fees and .09% for impact of empowerment zone activity and economic assumptions.

4/ Includes estimated carryover of subsidy budget authority of \$38.5 million and \$7.3 million for empowerment lending.

5/ Includes estimated carryover in program level of \$1.45 billion and empowerment zone estimate of \$268 million.

DEVELOPMENT COMPANY PROGRAM

Appropriations for the Development Company programs (502 and 504) are requested at \$12.4 million. This includes \$11.6 million in subsidy budget authority to fund a \$2.1 billion 504 program and \$.8 million in subsidy budget authority to fund a \$50 million 502 program. This is another program where demand has dramatically increased over the past few years. Approvals in FY 1991 were \$475 million, \$655 million in FY 1992, and \$852 million in FY 1993. Our FY 1994 appropriated level is \$1.0 billion, and at the current rate of approvals that level may not be sufficient this year. This program is becoming increasingly popular and important for cities and towns working on economic recovery, because it provides long-term loans specifically to assist in economic development and reconstruction. This program carries a subsidy rate of only .56 percent for FY 1995, compared with a .54 percent rate in FY 1993, and a .51 percent rate in FY 1994. The increase in FY 1995 is a result of technical reestimates and the inclusion of the empowerment zone initiative.

DEVELOPMENT COMPANY
(Dollars in Millions)

Fiscal Year	Wgt Ave Subsidy Rate (%)	Subsidy Budget Authority	Program Level	Increase	% Change
1992 Actual	0.76 %	\$5.0	\$655.3	\$ -	- %
1993 Actual	0.76	6.5	852.1	196.8	30.0
1994 Estimate	0.54	5.7	1,040.0	187.9	22.0
1995 Request	0.58	12.4 1/	2,128.9 2/	1,088.9	104.7

1/ Includes empowerment zone estimate of \$.4 million in subsidy budget authority.

2/ Includes empowerment zone estimate of \$72 million in program level.

SBIC PROGRAM

The Small Business Investment Company (SBIC) Program is an important source of equity and subordinated debt financing for small businesses. Government funds supplement private capital in independent venture capital investment companies. During the past year, this program has been strengthened by the addition of experienced management and the development of a new participating security, which will allow SBICs to secure "patient" capital to match their long term venture investments. Title IV of P.L. 102-366, Small Business Credit and Business Opportunity Enhancement Act of 1992, when implemented will significantly increase the flow of private capital into the program.

For FY 1995, we are requesting \$730 million in program level for the SBIC Program, including \$500 million for the participating security at a subsidy rate of 8.99%, and \$230 million for debentures, at a subsidy rate of 15.99% for regular SBICs and

29.59% for specialized SBICs. Of this total, \$165 million will be available to regular SBICs, up from \$100 million in FY 1994, and \$65 million to the specialized SBICs, up from \$17.9 million in FY 1994, which invest only in businesses owned by persons who are socially or economically disadvantaged.

SBIC PROGRAM
(Dollars in Millions)

Fiscal Year	Regular SBIC			Specialized SBIC		
	Subsidy Rate (%)	Subsidy Budget Authority	Program Level	Subsidy Rate (%)	Subsidy Budget Authority	Program Level
1992 Actual	14.29 %	\$8.6	\$60.1	27.30 %	\$3.4	\$12.3
1993 Actual	15.40	9.8	63.4	28.88	3.2	11.0
1994 Estimate	11.36 1/	35.0	307.8 2/	29.92	5.3	17.9
1995 Request	10.73 3/	71.4 4/	665.2 5/ 8/	29.59	19.2 6/	65.0 7/

- (1) Subsidy rate is a blended rate of 9.00% for Participating Securities and 16.25% for subordinated debentures.
(2) Includes \$207.8 million in program level for Participating Securities.
(3) Subsidy rate is a blended rate of 8.99% for Participating Securities and 15.99% for subordinated debentures.
(4) Includes \$2.4 million in subsidy budget authority for Empowerment Zone.
(5) Includes \$15 million in program level for Empowerment Zone.
(6) Includes \$4.4 million in subsidy budget authority for Empowerment Zone.
(7) Includes \$15 million in program level for Empowerment Zone.
(8) Includes \$165.2 million of debentures and \$500 million of Participating Securities.

MICROLOAN PROGRAM

We are requesting that the Microloan program be converted to a 100 percent guaranty program in FY 1995, and funded at \$7.9 million to provide a \$65 million loan program. Approvals in this program were \$13 million in FY 1992, and \$22 million in FY 1993. Our FY 1994 program level, including amounts carried-forward from FY 1993 is \$87 million. The subsidy rate for this program is 12.16 percent for FY 1995.

MICROLOANS
(Dollars in Millions)

Fiscal Year	Subsidy Rate (%)	Subsidy Budget Authority	Program Level	Increase	% Change
1992 Actual	17.33 %	\$2.2	\$12.7	\$ -	- %
1993 Actual	15.95	3.6	22.4	9.7	76.4
1994 Estimate	10.15	2.8 1/	27.5 1/	5.1	22.8
1995 Request 2/	12.16	7.9 3/	65.0 4/	37.5	136.4

1/ Estimate of actual FY 94 usage as of 1/94.

2/ Request to convert from a direct program to a guarantee program.

3/ In addition, \$3.4 million would be available as carry forward subsidy I/A if Congress allows us to transfer from the existing direct program to the newly created guarantee program.

4/ In addition, \$44.2 million would be available as carry forward program level if Congress allows us to transfer from the existing direct program to the newly created guarantee program.

DISASTER OPERATIONS (SALARIES AND EXPENSES AND LOANS)

I would like to take a few minutes to provide you an update on our response efforts to the Northridge California Earthquake. As you are aware, the SBA is again a major player in the Federal response effort to the recent disaster activity in North Ridge California. The President has taken a particularly personal interest in assuring that this response effort is the best that it can be, and I have assured him that I will do whatever it takes at the SBA to do our part. Therefore, I have traveled several times to California to review our operations there and to coordinate our efforts with the other Agencies and response teams. We are watching the volume of activity from this disaster grow daily. It truly appears to be the biggest disaster that the SBA has had to respond to in a long time, and maybe the largest ever in our 40 year history.

Four weeks after the California disaster we have conducted 297,000 interviews and received 43,000 applications. This compares to 116,000 interviews conducted and 41,000 applications received 18 months after the Hurricane Andrew disaster. Also, we have already approved 2,765 loans for \$86 million. We have a disaster response team of about 1,950 employees now primarily working out of Los Angeles and our Disaster Area 4 Office in Sacramento to provide the assistance that is needed.

I would also like to take this opportunity to thank you personally for your quick response in addressing our funding needs

through the release of our contingency funds and the provision of supplemental appropriations. These additional funds were critical to our ability to respond as timely and in such force as we have, yet enable us to take care of the many much smaller disasters that still require our attention and support.

With the release of the contingency funds and the supplemental appropriation that was provided, we now have available \$105 million to support the administrative costs of the California disaster and \$1.5 billion in loans. This is in addition to the \$97.7 million for administrative costs and \$817 million for loans that we have available for other disaster support activities. Also, there remains \$75 million in loan contingency budget authority representing another \$326 million in program level that can be released, if needed.

DISASTER ASSISTANCE
(Dollars in Millions)

Fiscal Year	Subsidy Rate (%)	Subsidy Budget Authority	Program Level	Increase	% Change	Salaries & Expense
1992 Actual	33.93 %	\$265.3	\$781.7	\$ -	- %	\$59.4
1993 Actual	20.58	291.9	1,418.6	636.9	81.5	109.7
1994 Estimate	22.99	607.7 1/	2,642.8 2/	1,224.2	86.3	162.7
1995 Request	12.67 3/	52.2	411.6	(2,231.2)	(84.4)	20.5 4/

1/ Includes carryover of \$132.8 million, released contingency of \$145.0 million, \$75.0 million contingency not activated and \$254.75 million supplemental.

2/ Includes carryover of \$577.8 million, released contingency of \$630.7 million, \$326.2 million contingency not activated and \$1.108 billion supplemental.

3/ Includes proposal to increase interest rate.

4/ In addition, it is estimated that \$40.0 million will be carried forward from FY 1994 with \$20.0 million needed to support the L.A. quake.

Now, I'd like to outline for you our FY 1995 request for the disaster program. We have requested \$20.5 million for the administrative costs of this operation in FY 1995. This estimate assumes that we will have sufficient carry-forward funds from FY 1994 under our existing contingencies. We expended \$110 million in disaster salaries and expenses in FY 1993 and are anticipating expending about \$163 million in FY 1994, barring any additional major disaster activity.

We have also requested a subsidy appropriation of \$52.2 million for the disaster loan program that will provide for a FY 1995 disaster loan level of \$412 million. This program carries a subsidy rate of 12.67 percent for FY 1995, compared to the FY 1994 subsidy rate of 22.99 percent. The increase in the subsidy rate is a result of technical reestimates, and our legislative proposal to increase the interest rate to the Treasury market rate plus one percent (estimated to be 6.93%). Approvals in this program were \$381 million in FY 1991, \$782 million in FY 1992, and \$1.4 billion in FY 1993. We estimate that with the California Earthquake, our FY 1994 approvals could reach \$1.8 billion. We also anticipate that an additional \$300 million in approvals from the California Earthquake will occur in FY 1995.

To support the ten-year average loan program level of \$412 and to maintain our disaster loan servicing operations, we would require approximately \$60 million in salaries and expenses funding for FY 1995. Of the \$202.7 million currently available

for salaries and expenses in FY 1994, we project that we may carry forward as much as \$40 million into FY 1995.

SURETY BOND PROGRAM

We have requested an appropriation of \$5.4 million for the Surety Bond program. This request will support a program level of \$1.8 billion in new bond approvals. As you know, the surety bond program remains one of our most popular programs and has a historically low loss rate of about 2 percent, thereby enabling a significant leveraging of Federal funds. Approvals in this program were \$1.1 billion in FY 1991, \$1.0 billion in FY 1992, and \$1.0 billion in FY 1993. Our FY 1994 appropriated level is \$1.8 billion. This program does not come under Federal Credit Reform, and therefore, has no subsidy rate attached to it.

In addition, we have significantly reduced the funding required for our Office of Surety Guarantees because we anticipate this program will be operated far differently in FY 1995. We anticipate converting 100% of the Surety program to our preferred program which now makes up 22% of our surety business. Such a conversion will still allow us to extend \$1.8 billion of surety bond guarantees to the small business community while reducing our cost by \$2.2 million and our surety personnel by 49 FTE's. This restructuring of the surety program will mean that we will no longer underwrite bond approvals or process claims and recoveries. This action will greatly reduce the administrative

costs to the SBA, result in faster approvals for the contractors, and faster claim payments to the sureties.

MINORITY BUSINESS DEVELOPMENT

As I mentioned earlier, we are taking an aggressive "ground-up" approach in assessing the objectives of our Minority Small Business program. In the coming weeks we will be proposing a legislative package to you that outlines our proposals for this program. We are very excited about these proposed changes and we see them as a workable solution to a program area that has not been effective in meeting the needs of our minority and disadvantaged small business customers.

The request is \$23.32 million for the Office of Minority Small Business, and, in addition, there is also \$500 thousand requested to complete the long delayed automation initiatives for the Minority Small Business program.

PROCUREMENT ASSISTANCE

The budget request for the Office of Procurement Assistance is \$16.4 million. This office ensures that small businesses receive a fair share of government procurement opportunities. This is done through the on-site location of procurement center representatives at major government installations and through the continuous monitoring of government contracting and subcontracting activities, and through the negotiation of

procurement goals with other agencies. Additionally, the office manages the procurement automated source system (PASS), which contains data on the capabilities of 222,000 small firms interested in doing business with the government. This data is used by hundreds of Federal procurement officials and large prime contractors to find qualified small businesses. The office also issues Certificates of Competency (COC), which document a firm's ability to successfully perform on government contracts.

BUSINESS DEVELOPMENT PROGRAMS

The SBDC program is requested at \$67 million. This program is designed to assist small businesses by linking federal, state, and local governments and the private sector to provide management and technical assistance to the small business community. The SBDC program currently has a network of 56 lead SBDCs located in 49 states and approximately 868 subcenters and satellite locations.

As I previously mentioned, we have requested \$3.2 million to support the four existing Export Assistance Centers and the ten additional centers proposed for FY 1995. We have also requested \$18.7 million for the nine "One-Stop Capital Shops" within the Empowerment Zones, including \$15.1 million to support \$375 million in financial assistance programs, \$1.1 million for Microloan technical grants, \$720 thousand for Business Information Centers, and \$1.7 million for project management.

We have included \$3.2 million in additional funding for staff training, which has long been neglected in this Agency. With fewer people, we have to train our people properly so we can be more productive. We currently have a portfolio of over \$25 billion in loans. This large portfolio of loans combined with the level of customer service that is necessary at the SBA will require skillfully trained and competent staff in all of our offices. Included in this training request are \$1.7 million for Economic Development programs training, \$500 thousand for Minority Enterprise Development training and \$1.0 million for centralized training in support of our other Agency program areas.

We are not seeking funding in the FY 1995 budget for any unauthorized initiatives, nor for the Small Business Institute program or the Tree Planting program.

REGULAR SALARIES AND EXPENSES-LOCALITY PAY AND PAY INCREASES

This budget request is consistent with the President's overall administrative and spending reductions, and will provide SBA with the resources necessary to deliver and administer our programs and services under our proposed streamlined organizational structure. The FY 1995 Salaries and Expenses funding request is for \$418.3 million and an FTE level of 3,741, excluding the Office of the Inspector General, whose budget request is separately included.

503 PREPAYMENT PENALTY

As you know, our 503 Development Company debenture borrowers have been unable to take advantage of reductions in the interest rates over the past few years due to the exorbitant prepayment penalty associated with early redemption of 503 debentures. Our FY 1995 budget request includes \$30 million in appropriations to help offset these penalties imposed on the borrowers. The prepayment program would allow high interest 503 borrowers to redeem or refinance their debentures as if they had borrowed under our 504 program using the same prepayment penalty that is in the 504 loan agreement. The associated penalty, which would go to the Treasury as an interest differential, would be forwarded by the SBA from this appropriation.

NEW FEE INITIATIVES

This budget request includes four specific fee initiatives proposed to assist the Federal appropriations process by generating \$26.4 million in revenues to the SBA. Absent these fees, an additional appropriation of \$26.4 million would need to be provided to fund the requested program levels and initiatives.

First, we propose to establish a \$15 per hour fee for counseling SBDC customers. We estimate this will generate \$17 million in revenues in FY 1995. We believe that this proposed fee is not only reasonable in view of the valuable services that SBDC counselors provide; we also believe that it will cause small business owners to use this program more wisely. We would also note that this fee is well below private sector market rates for similar services.

Second, we propose to charge a fee for all business development publications distributed by the SBA. These charges would range from about \$.50 to \$1.50, and would be used to offset the cost of printing, mailing, and distribution. We estimate generating \$1.15 million in revenues from this fee in FY 1995. Again, we believe that this minimal charge is reasonable, and below prevailing market rates considering the value of the product.

Third, we propose to charge a fee to our loan recipients who request changes to the terms and conditions of their loans. These changes are a routine part of servicing loans, and are widely

accepted in the commercial banking arena. Some typical instances in which we propose to charge this fee include: filing liens, subordinations, change of guarantors, and substitutions of collateral. A typical fee for executing such changes would be about \$75, which we estimate would generate \$7.2 million in revenues to the SBA in FY 1995. These fees would be collected through our participating lenders, and remitted to the SBA.

The final fee involves charging users for certain optional features on the Agency's first computer-based electronic bulletin board. This service (SBA On-Line) provides immediate, around-the-clock access to information on SBA's services, publications and programs, and users access through electronic gateways to other bulletin boards that contain information important to small businesses. The current 1-800 number was provided to SBA at no cost for the first year only. Due to the overwhelming response to this service (almost 800,000 calls since last year), the 1-800 number in FY 1995 will only be provided for initial access to SBA's general information. Users who wish to access other bulletin boards through the electronic gateways or who want to post and receive messages, will be assessed a user fee. This fee is expected to generate \$1 million in revenues to offset the expected \$1.5 million cost of providing this service. The Agency is planning to charge an average annual user fee of about \$35, which is approximately one-fourth of comparable commercial rates for similar services.

This concludes my summary of our FY 1995 budget request and some of the significant initiatives that we will be undertaking at the SBA over the next year or so. I would be happy to answer any questions that you may have for me.

The CHAIRMAN. Mr. Bowles, that is a very good, comprehensive statement. Let me ask you some things that are very much on my mind.

One is the thing that you concluded with, and that is the \$30 million you are asking for for the prepayment penalties of a lot of high interest 503 loans. I agree with that. In this day and time, it is a travesty. I know that those people agreed to those prepayment penalties.

We have the same thing in the REA program, which you may or may not be familiar with. It costs an awful lot more. There are about eight big REA cooperatives in this country that are saddled with tremendous prepayment penalties. Most of them want to pay their loans off because they run anywhere from 9 to 12 percent, and REA has been very recalcitrant.

We have tried to get some legislation through here, but, as you know, we have to find the money to do that.

Now, I am going to do my very best to come up with this \$30 million, because the idea of these small business people out there having to pay—how much? At what are most of these loans?

Mr. BOWLES. The interest rates range as high as 16 percent.

The CHAIRMAN. 16?

Mr. BOWLES. Yes, sir.

The CHAIRMAN. See, that is just a tragedy. We cannot sit here and pretend to be trying to help small business when we allow some guy to be threatened with closing his doors because of an interest rate like that.

Mr. BOWLES. And all we are recommending, Senator, is that the prepayment penalty be made similar to a market rate prepayment penalty that you would see in the private sector or the prepayment penalty that is very similar to our 504 prepayment penalty that is in existence today.

The CHAIRMAN. So there is a prepayment penalty. Now, that is the reason you are asking for \$30 million instead of the roughly \$160 million OMB said it would cost if we allowed them to refinance the whole thing, is that correct?

Mr. BOWLES. There are a couple of reasons for that. There are currently \$583 million worth of these 503 loans outstanding.

The CHAIRMAN. How many?

Mr. BOWLES. \$583 million. The number of loans is about 3,618, and the cost to us if all of them prepaid using 504 prepayment penalty would be about \$163 million. However, we do not expect that all of them would prepay. We do not expect that for a couple of reasons.

First of all, the 503 borrowers did a survey among themselves and their best estimate was that about 20 percent of those people would either choose to prepay or afford to be able to prepay. Just as with our 7(a) loan or our 504 loan, not everyone can financially afford to prepay.

In addition, it is usually those that have the highest interest rates that would choose the prepayment. If you make some kind of reasonable assumptions you can come up with a scenario where \$30 million would be enough to handle all of the need of all of the people who would be able to prepay in 1995.

The CHAIRMAN. As you know, Senator Hatfield has a bill pending that would authorize \$160 million for this purpose.

Second, let me say that someone came up to me in an airport the other day or on an airplane—I forgot where it was; it was someplace in Texas—and told me that this one-page SBA loan application is wonderful. I want to complement you on that. If you can make that work, you are going to win a Nobel Prize for something. If you can cut the application for an SBA loan on the order of magnitude which you are showing there, to one page, you are entitled to all the recognition that I or anybody else can get you.

But this woman came up to me and she said that this is presently a pilot program in the Dallas office. Is that correct?

Mr. BOWLES. It started out as a pilot program in the Dallas and in the San Antonio office.

The CHAIRMAN. That is where it was. I was in San Antonio.

Mr. BOWLES. We now have it spread throughout Texas, Louisiana, Arkansas, New Mexico, and Oklahoma. Senator Hutchison, it has been a phenomenal success. We have had small banks that have not used the SBA in years turn to us. We have small borrowers that have not come to the SBA.

The average size loan we are making with this single page application is about \$47,000. The average size business has four or fewer employees. About 25 percent are going to women-owned businesses. It really has been very successful.

Senator HUTCHISON. Mr. Chairman, could I speak out of order for just a minute to respond?

The CHAIRMAN. Sure.

Senator HUTCHISON. When I was State Treasurer of Texas, I worked with the SBA in the Texas offices on this pilot project and it is dynamite. The small business people in my State really do feel that difference. So I do compliment you for continuing that and improving and expanding on it.

The CHAIRMAN. Thank you, Senator Hutchison.

Now, on locality pay, you said that you were going to have to eat \$7 million on locality pay. I noticed the President did not ask anything for locality pay, or at least I did not see it.

Mr. BOWLES. It is not in the budget request.

The CHAIRMAN. Well, it is in there, but we are going to have to find it; is that the deal?

Mr. BOWLES. We have to eat in 1995 \$6.8 million worth of locality pay. The only way we can eat it is truly to cut into the number of people that we have at the SBA, and therefore we will have 125 fewer people in 1995 than we are authorized to have in order to make up for the \$6.8 million. And we will do that through attrition.

The CHAIRMAN. How would you feel about abolishing those specialized SBIC's? That is a fairly small program now, is it not?

Mr. BOWLES. Yes, sir, it is a relatively small program when compared to the SBIC program in total. But I would not be in favor of abolishing them.

The CHAIRMAN. How much money are you asking for that this year?

Mr. BOWLES. I think we are asking about \$65 million.

The CHAIRMAN. \$65 million?

Mr. BOWLES. In program dollars. About \$19 million in subsidy dollars. It is not a large program. Again, what needs to be corrected with the specialized SBIC program is how we define "socially or economically disadvantaged." That is where the problem lies.

Right now almost anything, it appears, can qualify as socially or economically disadvantaged. What we have to do is define that very narrowly so it really does meet the intent of the Congress, I believe.

The CHAIRMAN. Do you favor my proposal for a change in the bankruptcy rules for SBICs?

Mr. BOWLES. Yes, sir.

The CHAIRMAN. That would prohibit them from taking bankruptcy.

Mr. BOWLES. Yes, sir. We have long favored that position.

The CHAIRMAN. Well, I am going to make a run at it this year but I do not know. We might be able to get it done in the Senate. The House is another matter. I would have to look to you to help us over there, of course.

Mr. BOWLES. We will be glad to help you, because right now when they get in trouble they just declare bankruptcy and, since we are a subordinated lender, they just lock up the assets ahead of us.

The CHAIRMAN. I have a few other questions. I want to just ask one and I will defer to my colleagues. This one-stop capital center—for the benefit of my colleagues who may not have boned up on this, there is a proposal here to establish centers across the country composed of, I guess, SBDCs, SBICs, about five different SBA programs under not necessarily one roof, I take it?

Mr. BOWLES. Well, actually they would be under one roof, Senator.

The CHAIRMAN. Why do you not describe for the Committee how this will work? You are asking for \$300-plus million, are you not, for this program?

Mr. BOWLES. We are asking for \$18.6 million, which would fund \$374 million worth of program.

The CHAIRMAN. Well, describe what you hope to benefit. What is the attraction of this one-stop capital center? Is Little Rock going to get one?

[Laughter.]

Mr. BOWLES. Clearly one of the things that became increasingly evident to me as I toured the country was that the sector of the small business populace that is most starved for capital are those areas located in our poor rural communities, in our inner cities, and within that group those small businesses owned by women, owned by minorities, and particularly, even within that framework, those seeking capital of less than \$200,000.

Building upon the concept that you so rightly put together, the microloan program, we tried to think about how we could bring capital to that area of the marketplace. I had been involved in a community development bank in North Carolina called the North Carolina Self-Help Credit Union, and originally when that program was started it only gave advice. And as you all well know, advice only carries you so far.

It then got a grant from a foundation and it only gave money, and that was equally unsuccessful, because you need both the advice and the money. That is what that small business needs to have its chance, first to survive and then to grow and prosper.

So what we tried to do was to think, if in fact the microloan program would service the need of the zero to \$25,000 market—and that is a big, big market, because the average loan made in the microloan program is about \$7,500. Well, if you consider the fact that two-thirds of the businesses started in America are started with less than \$10,000 in capital and half are started with less than \$5,000, you can see that that program itself can meet a big need for capital in the small business marketplace.

But it also was equally clear that, almost regardless of the liquidity in the banking system, that the commercial banks had little incentive to make that loan between \$25,000 and \$150,000, and the reason is it takes as much time and you have as much cost in making a \$50,000 loan as you do a \$5 million loan. And not only do you have the same up-front cost, but once you make the loan you have a lot of maintenance costs because that borrower needs that advice and that technical assistance that we give in the microloan program.

So what we tried to do was think how could we make loans to fill that medium marketplace between \$25,000 and \$150,000? How could we make those and also take some of the risk of that loan out of that credit?

Well, what we decided to do was to steal your concept in the microloan program and steal that concept that we used at the North Carolina Self-Help Credit Union and use it with larger loans. Therefore, we decided to put in one area the microloan program, to focus on the zero to \$25,000 market, offering both the credit and the advice. We decided to put in a small business lending company, which is something we have at the SBA, which is basically a non-bank. We put it down there to focus on that market between \$25,000 and \$200,000, and we would put right beside it an SBDC, a small business development center, a SCORE operation, which are our retired executives, and a BIC, which is our business information center.

Everyone who borrows money from the SBLC, the small business lending company, would be required to have that personal banker there to offer advice and to counsel that company for a number of years during its early stages. We felt therefore we could take some of the risk out of the loan, increase the chance that we would be paid back and also the chance that the business would grow and prosper.

We also were going to put down there a community development corporation to bring the long-term funds to the small business, and also an SBIC and an SSBIC to provide the equity capital.

Therefore, in one place a small business would be able to go for both the capital and the advice they need in our poor rural communities and inner, inner cities.

The CHAIRMAN. Mr. Bowles, let me just conclude with this comment. Using community development block grant funds to help finance these at the local level is using Federal money to match Federal money, and I have to say I really have a problem with that.

Mr. BOWLES. I have heard a number of people express objections to using community block grant money to capitalize the SBIC. We have talked about that as one alternative. We have also talked to any number of commercial banks who have expressed an interest in funding some of the SBLCs.

The CHAIRMAN. Senator Pressler.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM
THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Thank you, Mr. Chairman. I ask unanimous consent to place my opening statement in the record.

The CHAIRMAN. Without objection.

Senator PRESSLER. Thank you. Administrator Bowles, welcome.
[The prepared statement of Senator Pressler follows:]

PREPARED STATEMENT OF SENATOR LARRY PRESSLER

I would like to thank Chairman Bumpers for holding this hearing on the Small Business Administration's FY 1995 budget request. I look forward to working with the Chairman during this session on this and many other important issues affecting the small business community. I also would like to welcome the Administrator of the Small Business Administration, Erskine Bowles, and thank him for being here this afternoon. I have some brief comments regarding the SBA's budget request and look forward to Administrator Bowles' testimony.

The Small Business Administration is undergoing a period of transition. It is unfortunate that the Administrator's attempts truly to reorganize the agency were sidetracked by parochial interests.

When Administrator Bowles came to us for confirmation, he admitted to being a political novice who would need some time to understand the ways of Washington. I dare say that at the very least this effort provided him with a serious educational experience.

Furthermore, the SBA has been the source of a variety of scandals. As a result of the agency's activities involving such things as Whitewater and the production of slick, pro-Administration health care reform brochures, many have come to view the SBA as a haven for waste, fraud, and abuse. As a consequence, members of Congress need to take a hard look at SBA's FY 95 budget request. The proposed budget only calls for a less than 1 percent overall budget increase. However, hidden within the details are significant increases for programs that have suffered major losses and experienced serious problems over the years.

Additionally, the budget calls for unfair and potentially unworkable user fees for some of SBA's programs. For example, it would impose a \$15 an hour fee for entrepreneurs seeking counseling at their local Small Business Development Center (SBDC). Fifteen dollars may not seem like a large amount of money to pay for counseling in New York City, but for hard working people seeking to start a small business in Yankton, SD, it is a substantial fee.

The budget also calls for a \$30 million dollar appropriation to subsidize the repayment of high interest 503 Program loans. This is an admirable goal, but the Administration should offer a \$30 million offset to pay for this initiative.

Moreover, the budget would significantly increase the interest rates for disaster loans. Rural America already has been decimated by floods, it does not need the burden of higher interest rates.

I do want to commend the SBA for seeking to eliminate \$31 million dollars worth of pork-barrel projects the agency funded in FY 1994. I just wish the Administration showed similar fiscal restraint with its other proposals.

Again, I welcome Administrator Bowles and look forward to his testimony.

Senator PRESSLER. In general, how do you—if you had to do it in one or two sentences—justify this budget request. I know you have covered part of this, but your agency is seeking an increase in funding, while other agencies are cutting their budgets. With the serious budget constraints we face, how would you justify that to a citizen on the street?

Mr. BOWLES. Very easily, sir. Let me give you some real numbers. In 1993 our total budget authority was \$1.2 billion. In 1995, I am requesting \$806 million. That is \$402 million less, or 33.3 percent less. Now, if you take out disaster, which distorts our numbers, in—

Senator PRESSLER. I'm sorry. You mean you are seeking a decrease for FY 1995?

Mr. BOWLES. Yes, sir.

Senator PRESSLER. What was the 1994 figure?

Mr. BOWLES. I am going to get to that. In 1994, we had \$798 million authority and we are requesting \$806 million. That is an \$8 million increase or a 1.0 percent increase. At the same time, our agency credit programs have grown from \$7.4 billion to \$11.9 billion. That is a 62.2 percent increase in our program.

I think a one percent increase in our budget authority is probably pretty reasonable in light of a 62.2 percent increase in our program. I think that is what is called leverage and real bang for your buck.

Senator PRESSLER. There have been large losses over the years in some SBA program areas and you have covered some of this. But again, how are you going to ensure against even bigger losses in the SBIC and the MESBIC programs?

Mr. BOWLES. First of all, as it relates to the SBIC program, as you may know, Senator Pressler, we have brought in a new management team for that program. We brought in Bob Stillman, who is considered, has been throughout his career on Wall Street, to be one of the most respected men in the venture capital and investment banking industry.

I did not bring him in because he was a Republican, but he does happen to be one. He was a client of mine and someone I have worked with. He is a highly respected man and I am confident he can manage that program.

But we will monitor that program more closely. We will audit that program more closely. And we are also going to license and license hard. We are only going to license proven, experienced venture capitalists, and in that way, if you license hard, your problems in the future will be very, very few.

Senator PRESSLER. Why are you asking for such a large increase in the 504 program and what is the current default rate for the 504 program?

Mr. BOWLES. We are asking for about a \$1.1 billion increase in the 504 program from FY 1994 to 1995. We are asking that because of the huge demand. You have to remember that it has our lowest credit subsidy rate.

The weighted credit subsidy rate in our 504 program is only about .56 percent. That is where the taxpayer gets really the biggest bang for their buck. I wish we could get all of our programs to be as efficient as the 504 program is.

In addition, the funds in the 504 program are all used for economic development and to rebuild our cities. I think it is probably one of the best programs the SBA has. It is surely one of the most cost efficient programs. The loss ratio is about 2.1 percent. It is very low.

Senator PRESSLER. Okay. Now, I understand you propose to charge \$15 an hour fee for counseling at small business development centers. How much do you expect that fee to raise and how do you think that is going to go over?

This is the first time that a fee has been proposed for this program, is it not? Maybe it is a necessary thing. I do not know.

Mr. BOWLES. Let me just say first why we are doing it. To answer your question specifically, it is \$15 per hour and we hope to bring in \$17 million as a result of it.

The concept behind the fee is that we felt that if people paid something to utilize the service that they might value the service more, and if they value the service more they might do more homework ahead of time before they went to the SBDC and therefore they would get much more out of the time they spent with the SBDC business manager, and therefore he could use his time or she could use her time much more productively and we could get more bang for the buck in that way.

The SBDC operation does charge for training and counseling already. They do not charge in the manner that we are suggesting. What is the amount they charge, Arnie, now, for that?

Mr. ROSENTHAL. They charge about \$25 for the training.

Mr. BOWLES. We generate about \$6 million. They keep those fees themselves now.

I might add that over at the Commerce Department, at the MBDA, they charge \$50 an hour and then they buy down that cost by 80 percent for people with less than \$500,000 of revenues and buy down those that have greater than \$500,000 revenues by 65 percent. So their fees actually can be higher than the fees we are talking about charging.

But again, we believe it will enable us to do more with less.

Senator PRESSLER. You have touched on this, but your budget calls for a significant increase in the interest rate for disaster loans. Why did you raise the interest rate on this program as opposed to your other assistance programs?

Mr. BOWLES. During my opening testimony I said I believe that we could go forward. We have done some re-examination of the program and at this time we believe that we can go forward without raising that interest rate to the Treasury plus one percent.

Senator PRESSLER. I am pleased to hear that. One thing I have been very concerned with is that small town disasters or rural disasters be treated as quickly and efficiently as some of the highly publicized urban disasters, and I am not taking anything away from the needs of California or Florida during earthquakes or hurricanes. However a tornado in a small South Dakota city that destroys four or five businesses does not make national headlines, but it is just as devastating to that community. I think your agency has been quite responsive in South Dakota when we have had those types of situations.

However, in general the responsiveness of the SBA to the recent California earthquake was far superior to that of the great flood of 1993, let alone to isolated disasters occurring in sparsely populated areas. Specifically, I notice that the lending caps for home and personal loans were doubled, according to an SBA press release, in response to the needs of Los Angeles.

What prompted this dramatic change in policy? How will this action, along with the proposed budget cuts, affect the future availability of disaster assistance? And I guess the core of my question is: Are you as quick to respond to a small city's disaster that does not enjoy national press coverage or national concern as you are to ones that occur in the big media centers?

Mr. BOWLES. I think I can answer that question unequivocally yes. I think we learned a lot in the Midwest floods, Senator. As you said, from your own experience with the SBA, that you in South Dakota have experienced no problems with our service.

We have worked hard at reducing the loan documentation forms at the SBA for disaster relief. We really have worked hard at taking the bureaucracy out of our programs to make them more user-friendly, and that is why we can move much more rapidly now than we could in the Midwest floods. That is why I believe we are delivering better customer service today than we did during the Midwest floods.

We did learn a lot from that experience and we believe that our customers have profited from it. But under no circumstances should we give better service in California or in Chicago or in St. Louis than we give in Sioux Falls, South Dakota.

Senator PRESSLER. There was a controversy last year regarding the health care brochure that was printed by the SBA and the 800 telephone number that your agency was involved with. What is your feeling about this issue? Was there money spent that should not have been? Will these sorts of things be continued?

There was some feeling, at least on my side of the aisle, that the health care brochure was advocating the administration's health care plan at government expense, and I think you have received letters from some of us and some of the House members.

Mr. BOWLES. I sure did. The health care brochure we printed up was done specifically for the purpose to educate the small business owners. Clearly, health care is the number one issue facing small business owners today. All of the health care proposals that are out there are complicated. We felt it in the best interest of the small business owners to use some of the money that we have for publications, out of our publication budget, to educate and inform the small business owners.

We have every authority to do that under the Small Business Act, and as such did such.

Senator PRESSLER. Speaking as one Senator, I found it a little too one-sided as it did not present anything on the alternatives, and I had difficulty with that expenditure.

Now, your budget calls for a major increase in the SBIC program. Obviously there have been some scandals and some alleged scandals in this program. What steps are you taking to head those off?

Mr. BOWLES. As I said in an answer to an earlier question, we are taking every step you possibly can take to prevent fraud and abuse. We have increased our auditing. We are more closely monitoring the program. We have far, far tighter licensing requirements, and we are emphasizing quality management.

In addition, we brought in a new management team to run the SBIC program and we are confident that that new management

team, combined with the new Participating Securities program, which the Congress passed, I think 99 to 1, will make this program a program that we all can be very, very proud of.

Senator PRESSLER. My last question, Mr. Chairman, and perhaps I will have some in the second round, involves the small business set-aside program. I have just come back from Portland, OR, where I addressed loggers and others who make their livings in our western forests, and they are concerned about the timber set-aside program.

Is this a costly program or is it used essentially only to make declarations that so much of our forest resources are available to small business?

Mr. BOWLES. Senator, I do not have exact information with me now, but I will be happy to get that to you.

Senator PRESSLER. I do not think that this is an issue of a budgetary increase or decrease, but many small business owners are very eager to work with you on the set-aside program. Small businesses involved in timber industry already are having a hard time working it because of environmental lawsuits in which they have to hire a lawyer every time the Sierra Club or any other seeks to prohibit them from cutting timber that is environmentally approved by the Forest Service.

I guess my questions for the record would be: Is the program costly? Is the cost going to increase? I do not think it is very costly. I think it is a declaration of a certain amount of the lands to be—

Mr. BOWLES. Set aside for small businesses.

Senator PRESSLER. Yes.

Mr. BOWLES. In the Federal timber.

Senator PRESSLER. So that small businesses are able to cut a certain amount of the timber available.

Is there anything being planned in regard to the future of the program? Any other comments you might have on the timber set-aside program—which is of great interest in western South Dakota and in the Pacific Northwest, as well as throughout the country wherever is timber harvested—would be greatly appreciated.

Mr. Chairman, I yield the floor.

[The information referred to follows:]

NATURAL RESOURCES SALES ASSISTANCE (NRSA)

The purpose of the Natural Resources Sales Assistance Program is to aid and assist small business in obtaining its fair share of Federal property offered for sale or disposal by other means. Within this Government-wide program, our efforts have been concentrated on the sales of Federal timber, royalty oil, coal leases, other mineral leases and Federal surplus property sales.

During the first half of FY 1993, small business was awarded over 724 individual Federal timber sales, representing approximately 796 million board feet of sawtimber at a return to the Government of nearly \$257 million. Small business awards represented 64 percent of total Federal sawtimber sold in the first half of FY 1993. The small business timber program assures that the small business community will receive its historical fair share of Federal timber through small business set-asides.

The CHAIRMAN. Thank you.

Senator Wellstone.

**STATEMENT OF HON. PAUL WELLSTONE, A U.S. SENATOR FROM
THE STATE OF MINNESOTA**

Senator WELLSTONE. Thank you, Mr. Chairman. Mr. Chairman I do have a statement I would just like to have included in the record.

The CHAIRMAN. Without objection.

Senator WELLSTONE. Mr. Bowles, I want to make a couple of comments and then ask a couple of questions. But by way of beginning my comments, when you first appeared before the committee I remember some of us said that we welcomed someone with your background. Just speaking for myself, and I think I speak for everyone: I do not regret for one moment that you are in a major leadership position. I think you have done a tremendous job and I think you have brought a kind of intellectual and policy ferment to SBA, and it is something we have not seen for a long time, and I thank you for that.

I appreciate your discussion about targeting some of SBA's loan programs. You mentioned inner city communities and you also mentioned rural communities and you mentioned women and minorities. I also would add, although it is not in your budget, that I support the idea of targeting to make a linkage between small business and high wage jobs.

I think this is part of the overall mandate for our economy, and I think especially speaking from a rural perspective I think that is very, very important, and want to commend SBA for beginning to look at that idea.

Did you want to respond to that?

[The prepared statement of Senator Wellstone follows:]

PREPARED STATEMENT OF SENATOR PAUL WELLSTONE

Thank you, Mr. Chairman. And thank you Mr. Bowles for being with us today. I remain excited about the prospects for small business policy under this Administration. I think the President's proposed FY 95 budget for SBA reflects his support for small business programs, and I am particularly pleased to see that room has been made for increases in SBA's two primary loan-guarantee programs—the 7(a) and the 504 programs.

Demand for these two programs has increased dramatically in Minnesota. Demand for 7(a) loans has increased 20-30 percent annually in recent years, and, as you may know, Mr. Bowles, our SBA District Office, which is in Minneapolis, led the entire nation in both the number and dollar-value of 504 loans last year. I will not be surprised if they do so again this year.

Minnesota small businesses make very good use of SBA programs.

It is for this reason that I would like to commend you for one of your first efforts as Administrator, which is the beginning of distributing some resources and personnel away from Washington, toward the district offices. I have to point out that the two new loan officers our District Office may gain through this effort will only allow us to hold even, since two others are retiring and couldn't be otherwise replaced. But the idea is obviously a good one. Turnaround time on loan applications in our District Office is currently 5 weeks rather than the target of 3 weeks. That is no fault of our overburdened loan officers, two of whom are just now detailed to California for the earthquake-relief effort.

Mr. Bowles, we were very pleased last year to welcome someone of your background to the position of Administrator, and we have not been disappointed. There is already a positive feeling of intellectual and policy ferment coming from the agency.

I know that one idea you are proposing is to expand the current pilot program which allows a low-documentation process for 7(a) loans under \$50,000. This would really help to direct loans toward that niche between microloans and larger 7(a) loans, and I hope our Minneapolis office will become a site for that expansion.

I look forward to working with you on that and other ideas as we continue to look at SBA programs for possible improvement.

Mr. BOWLES. Just two things, Senator Wellstone.

Senator WELLSTONE. I would like to work with you on that. I am very interested in that particular area.

Mr. BOWLES. Thank you. I appreciate your compliments. But I will say unequivocally we have assembled a very good team at the SBA. It is a team of experienced people from the private sector who have come to the SBA to work with the career employees, and we have worked long and hard to earn the trust of the career employees. I think together, working the hours we have worked, I believe that we really have achieved some real buy-in throughout our districts and throughout our regions and throughout the central office, so that we can be a more efficient, more effective, more user friendly organization.

Senator WELLSTONE. I am pleased to see that room has been made for increases in the 7(a) and 504 programs, and I agree with what you said about the efficiency of the 504 program. Of course, I cannot help but agree with you because our district office in Minneapolis, as you well know, is very active. I think we led the Nation both in the number and the dollar value of those loans last year, and I would not be surprised if we do again.

Now, here is one—I may be swimming upstream on this, but here is one concern I have. I do not know whether you can do that much about it. I think on the one hand all of us applaud your effort to move away from—to try and transfer some of the resources and personnel from Washington out into the field offices.

We have a great district office. I mean, I brag on the work they do in Minnesota. The problem, however, is, even though we have great people, we are still getting—Mr. Chairman, it is taking about five weeks to process these loan applications. You would want to see something more in the area of 3 weeks in terms of turn-around time.

That is because, even with the transfer of some additional man and womenpower, we also have two people who are retiring, so we do not have any net gain. And I know that right now you are not in a position to give us that net gain. We have also got a couple of people, interestingly enough, on detail in California right now, which I do not think anybody for a moment questions. You know, the support is needed out there.

But I just want to express to you that the streamlining of the forms and all the rest is extremely important, but sometimes what I find as a big concern is that we pay a price for our very success. We really do not have the man and womanpower that we need out in the field office.

Mr. BOWLES. I think that is clearly true. We are making, for the first time, a real effort to do that. For the last 12 years, the SBA had about 4,000 people at the beginning of that period, it had about 4,000 people at the end, but they ended up that period of time with about a third fewer people in the field, and those people got shifted to the regional offices and to the central office.

Well, I do believe that is counterintuitive. I do think you should put your assets where your customers are. I believe our people in

the field, just like the ones you mentioned in Minnesota, are doing a fabulous job.

Senator WELLSTONE. They are.

Mr. BOWLES. With very limited resources. But what I have to do now is to shift as many of those people as I possibly can from Washington and from the regions back to the districts. We have too many people at the SBA still involved in doing other things other than working directly with our customers.

I have two overriding problems, though. One is we have to have an overall reduction in the number of people who work in the government, and I have to do my part to contribute to that reduction in the work force.

Senator WELLSTONE. Right.

Mr. BOWLES. And I am committed to doing that. So that is one reason why I will have overall fewer people. Then in addition to that, because I have to absorb the locality pay, I have far fewer people that I can fund below the number that I have been authorized for. And in fact, if the Congress sees fit to give a projected pay raise next year, that is not in this budget and I will have to absorb that with fewer people if you give that pay raise.

Those are the kind of things that happen to a manager as you go through trying to live with the way the budgets are put together in the government.

Senator WELLSTONE. Well, I said I was swimming upstream. I think that the argument about the bureaucracy and cutting sometimes is tiring and tiresome. It depends on who you are talking about.

I happen to think that some of these programs are extremely important and I am saddened to see some of it, because I think we are paying a price. That is my point.

Mr. BOWLES. But we will have more people in the field.

Senator WELLSTONE. Good.

Mr. BOWLES. We will have fewer people in Washington, and fewer people in the regions.

Senator WELLSTONE. Good.

Mr. BOWLES. And we will give better customer service.

Senator WELLSTONE. Now, on this low documentation process for the 7(a) loans under \$50,000 that we have heard so much about in some great States like the great State of Texas, I just want to tell you that our Minneapolis office would be proud to be a site for such a program. It fits that niche between \$50,000 and the micro-loan, and we would be very anxious to participate in this.

Mr. BOWLES. Mr. Cox is sending in our credit review team to analyze the loans that have been made. We want to make sure we are doing this right. We want to be very careful with the taxpayers' money. But we are sending in, I think it is next week or this week, our credit review teams.

We are going to make sure that we are making the kind of loans that the taxpayers expect us to make, that we are not taking inordinate risks by utilizing this program. We do not believe we are. We are watching it very closely. But if in fact we have been prudent with the taxpayers' money, then I think you can see us take this program on a national basis in the near future.

Senator WELLSTONE. Sure. I understand you are in a pilot project, and if the record speaks for itself, you will expand it. I am just telling you that we would be very anxious to participate.

Two quick questions. I am a big fan of the microloan program. I have found some real inspiring success stories. Now, I notice you are going to shift from a direct loan to a loan guarantee program with the microloan.

Mr. BOWLES. Yes, sir.

Senator WELLSTONE. The A part of my question is: What budget savings do you project from such a shift? Then the second part of my question is: Are the banks going to be asked to offer a special interest rate, or how exactly are we going to do this?

Mr. BOWLES. The savings in the first year are very, very minimal. The credit subsidy rate of 12.16 is slightly below what it would be if we were not going to a guarantee program, and that is because it is a 100 percent guarantee program. We feel like over time that we will be able to reduce the guarantee, first to 95 percent and then perhaps as low as 90 percent.

That will again give us much more bang for our buck. In addition, by the bank absorbing some of the administrative cost it will save us some dollars in that regard, so it will enable us to be more efficient and more effective. I think it will have zero effect on either the microloan intermediaries or on the microloan borrowers.

Senator WELLSTONE. Well, we have four intermediaries in Minnesota and that is why I asked the question.

Finally, Mr. Bowles, I want to extend to you an invitation to come to Minnesota. I know you have been doing some traveling in other States and I would love to call your office and have you out in Minnesota.

Mr. BOWLES. Thank you.

The CHAIRMAN. Thank you, Senator Wellstone.
Senator Hutchison.

STATEMENT OF HON. KAY BAILEY HUTCHISON, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator HUTCHISON. Yes.

Mr. Bowles, I want to just say one thing about one comment you made about previous administrations wanting to abolish the SBA. I understand that Mr. Stockman at one point made some references to that, but no action was taken, and the Bush Administration was very supportive of the SBA and small business, the President having been a small business person. I too am very supportive of what you are doing. But I did want to make the point that the Bush Administration was very supportive.

Also, it was during that administration that we started requiring fewer pages in the loan applications, because as State Treasurer of Texas I was part of that beginning effort. I want to compliment you for expanding on that and making it grow, because I think it is a very good program.

Also, I want to mention something you might mention consider at SBA as one of the things that could be done in other States to encourage SBA loans to be purchased. In Texas, we purchased with our State treasury dollars the guaranteed portion of SBA loans

from the banks that were participating, to get them off the banks' books so that they could have more options, hopefully, to go out and make more loans. We ended up buying around \$20 million dollars in loans. I think it was a great partnership between the SBA and the State treasury, and you might want to look at that in some of the other States as a partnership that would free up more money to go for those loans.

I also want to compliment you on the women's prequalification loan program that you are doing in Chicago. I think there is a de-emphasis in this country on women and some of the hardships that small businesses started by women face, and I am glad to see that you are focusing on women, because most of the new small businesses created in this country right now are created by women, and it is a great job market.

I would like to be kept apprised of the progress on that and I hope, if you make a success of it and help the women that are able to prequalify, that you can expand that program as well. How long do you think it will take to get an idea of how much interest is out there?

Mr. BOWLES. On the women's pilot project, we are actually going to have, I believe, eight of those. We are going to have one in Chicago, one in Columbus, Ohio, one in Albuquerque, NM, one in Helena, MT, one in New Orleans, Charlotte, Salt Lake City, and San Francisco. So those are the districts that have expressed an interest in having this pilot project for women.

We do think it can be very, very successful, but we wanted to test market it, just like you would any other product. We do believe that once we have a chance to evaluate it, just like we had with the LOWDOC program, we will be able to take it further.

Senator HUTCHISON. I believe if I am not mistaken that maybe Mr. Cox was in a meeting I had with the previous administrator. Have you been with the SBA for a while?

Mr. Cox. Yes.

Senator HUTCHISON. I think you were part of that program to start this documentation simplification program.

Mr. Cox. Yes. That was in reference to a short form that we had previously, but it mandated all the attachments that we would have on a regular form.

Mr. BOWLES. This (indicating) is actually a brand new form that we came up with ourselves in the last two or three months.

Senator HUTCHISON. Yes. I applaud you for it and I think it is terrific, and I am very supportive of it. I think that we are now beginning to really get into the small businesses that really do need the help in this country. I know as a small business person myself many years ago, I looked at SBA loan forms and decided to go conventional.

Mr. BOWLES. Sure.

Senator HUTCHISON. I think going into an \$18,000 loan with that one short form is absolutely terrific. I applaud you for it and will certainly be supportive.

Mr. BOWLES. Thank you, Senator.

Senator HUTCHISON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Hutchison.

Just two or three concluding questions, Mr. Bowles. The one-stop capital center idea has a lot of appeal to me. As I told you, I am very much concerned about allowing the use of community development block grant money to replace private money on that. But another thing is, as I understand it, these are calculated to be built in high-risk areas and as a result the subsidy rate for 7(a) loans would go from 2.15 in 1994 to 2.73 in 1995. Is that correct?

Mr. BOWLES. Yes, sir. If I could expand on that a little bit, the subsidy rate excluding the empowerment zones goes from 2.15 to 2.65 for several reasons.

The CHAIRMAN. Is it 2.65?

Mr. BOWLES. Yes, sir, for reasons other than the empowerment zones. Some of that is because we did not receive as much of our 50 percent fee on sales in the secondary market above a level of 110, so OMB made an adjustment. And that is the principal reason why our fee goes from 2.15 to 2.65.

The increase in the weighted subsidy rate from 2.65 to 2.73 is a direct result of the empowerment zones, and that is because the loans in the empowerment zones were given a credit subsidy rate which is twice as high as the credit subsidy rate of those not in the empowerment zones.

The CHAIRMAN. Are you saying that by reducing the additional subsidy from 2.65 to 2.73—

Mr. BOWLES. Is due to the empowerment zones.

The CHAIRMAN. So the reduction in loans would be minuscule as a result of that loss of subsidy?

Mr. BOWLES. Absolutely.

The CHAIRMAN. The second thing I wanted to ask you is, you know, we have been waiting with bated breath in Little Rock for some time for one of these loan servicing centers and, as we say in Arkansas, we cannot get no hearing. Could you enlighten us as to when we might expect some action on that?

Mr. BOWLES. Absolutely. The answer is as soon as I can afford it. Because of the need to absorb locality pay and because I may not be able to through attrition reduce my work force as quickly as I would like to, then I have had to put the loan servicing center on hold until the last quarter of this fiscal year.

I hope by the end of the last quarter of this fiscal year I will have saved enough money to begin the loan servicing center in Little Rock. It absolutely makes sense. The currency rate of our loans in the loan servicing center in Fresno is 9 percent better than the currency rate throughout the SBA. It does enable us to be much more efficient, much more effective. It is doing the loan servicing the same way it is done in the private sector, as you know, Senator Hutchison.

It makes a lot of sense. I simply just cannot afford to do it until the last quarter of this fiscal year and then to carry forward and finish it up in the first and second quarter of next year.

The CHAIRMAN. Mr. Bowles, what is the total figure for 7(a) loans in fiscal year 1993?

Mr. BOWLES. In 1993, it was \$6.4 billion and that took \$334 million worth of credit subsidy authority. So it took \$334 million to make \$6.4 billion worth of loans. We will make just about \$7.5 bil-

lion worth of loans, so we will make more loans at a cost of only \$207 million in 1995.

The CHAIRMAN. For 1995?

Mr. BOWLES. Yes, sir.

The CHAIRMAN. Is that what you are talking about when you say "this year"?

Mr. BOWLES. That is what I meant to say, yes, sir, 1995.

The CHAIRMAN. Well, how many loans do you anticipate making this year, 1994?

Mr. BOWLES. At this time, we expect to make approximately \$7.0 billion worth in 1994, at a cost of \$150.5 million.

The CHAIRMAN. When you said "last year," were you talking about 1993 or 1994?

Mr. BOWLES. In 1993, we had credit subsidy authority of \$334 million and we made \$6.4 billion worth of loans.

The CHAIRMAN. Okay.

Mr. BOWLES. In 1994, the year we are currently in, we will probably use \$150 million and we will make about \$7 billion worth of loans.

The CHAIRMAN. Do you anticipate running out of money?

Mr. BOWLES. No, sir, we will not run out of money. We in fact believe that we will have some carryover authority into 1995 and have forecasted such.

The CHAIRMAN. I am sure you signed off on—as a matter of fact, I was going to vigorously oppose it, but they told me that you had signed off on it and the White House had signed off on raising the maximum disaster loan from \$500,000 to \$1.5 million during the Midwestern floods.

I do not want to ask you an embarrassing question. Was that your idea or the President's idea of going along with that? I did not like it. I thought it was too precipitous an increase. We have a tendency to get very emotional around here when there is a disaster.

Mr. BOWLES. The vast majority of the business loans we do are way under \$500 million, much less the 1.5—excuse me—the \$500,000, much less the \$1.5 million. We have to go to the \$1.5 million level very, very rarely. It does appear that when we need to go to that level there are a large number of jobs that are involved and it does tend to make good sense.

The CHAIRMAN. Can you give me a guess as to how many, well, let us just say, how many applications did you get in the Midwest for \$1.5 million, or say between a million and 1.5 million?

Mr. BOWLES. Not many. But let me get the information for you.

The CHAIRMAN. All right.

Mr. BOWLES. As I remember, it was not many.

[The information referred to follows:]

SEA Disaster Business Borrowers with Loan Approvals over \$500,000 (Old Statutory Loan Limit)
(for disasters commencing 4/1/93 or after, and subject to the new statutory loan limit of \$1,500,000)
 (all data through February 24, 1994)

State	Number of Business Borrowers Loans over \$500,000 and up to \$1,500,000	Total Amount of Disaster Loans over \$500,000 and up to \$1,500,000	Number of Business Borrowers Loans over \$1,000,000 and up to \$1,500,000	Total Amount of Disaster Loans over \$1,000,000 and up to \$1,500,000
Midwest Flood Disasters				
Illinois	11	\$ 10,154,700	4	\$ 5,164,100
Iowa	26	21,212,300	6	7,438,600
Kansas	4	3,382,300	1	1,334,600
Kentucky*	3	2,306,600		
Minnesota	7	4,776,500		
Missouri	54	54,785,700	23	31,861,800
Nebraska	3	2,317,700	1	1,258,700
South Dakota	1	987,100		
Other Disasters				
California, wildfires	4	2,849,400		
earthquake	2	2,275,700	1	1,500,000
Guam	2	1,357,500		
Louisiana	1	629,300		
New York	2	2,015,500		
Oregon	1	502,000	1	1,500,000
Virginia	1	609,300		
TOTAL	122	\$ 110,161,600	37	\$ 50,057,800

* economic injury disaster loans approved in counties contiguous to Illinois counties included in Presidential flood declaration

The CHAIRMAN. Also, for the Los Angeles earthquake, while we are at it. Senator Harkin first came to me with that. It was his amendment on the floor of the Senate, as you will recall. They wanted to change the formula on disaster loans and I said: Well, I will go along with the change to the formula if you make it retroactive from 1991 to cover the Red River floods in my State and Louisiana and Texas.

I understood him to say that was okay. And I am not criticizing Senator Harkin. It did not turn out that way. The people in Arkansas, Texas, and Louisiana did not qualify under the formula change.

But in any event, these things can really get out of control. One of the reasons I am going to oppose this balanced budget amendment we are getting ready to debate here is, what are you going to do when you have an earthquake like we had in Los Angeles, where the Federal Government is expected to pick up \$10 billion worth of tab, and \$10 billion in the Midwest for the floods? Are you going to say to those people, we are really sorry, we passed the balanced budget amendment and went home, patted ourselves on the back, and said, ain't this wonderful, and it just so happens we cannot do anything for you?

But as I say, while I am very compassionate and I want to help those people, I thought that that went beyond the pale. But I would like any figures you can give me on both of those disasters.

Mr. BOWLES. Yes, sir, I can get you exact figures.

The CHAIRMAN. On the small business institutes, I think that has been a pretty good program. It is very small. It serves over 6,000 small businesses annually for \$3 million, which seems to me like a fairly reasonable, good deal. But I am probably not going to argue about that.

As far as your suggestion that you are going to raise \$17 million in fees for businesses that use small business development centers, I do not know what kind of a formula you use to arrive at that figure. I do think I would probably stand on my head on the Washington Monument the day you do that.

We will talk about it again one year from now. I have no objection to it, but I just think an awful lot of people use SBDCs because they are free, and unless you took an awful lot of that into consideration in coming up with that \$17 million, you are going to be way off the mark, I am afraid.

Senator Pressler, do you have any additional questions?

Senator PRESSLER. I just have a couple, and also one comment. I heard the comments made about Little Rock. Now, Administrator Bowles, you are going to treat Sioux Falls on an equal basis with Little Rock, is that correct?

The CHAIRMAN. Oh, you are not even in our league. What are you talking about?

[Laughter.]

Senator PRESSLER. There would not be any reason you would treat Little Rock better, would there?

Mr. BOWLES. No, sir.

Senator PRESSLER. Okay, good.

Now, the position of chief counsel for advocacy has been vacant for more than one year. When is the Committee going to receive a formal nomination?

Mr. BOWLES. The President announced his intent to nominate Jere Glover, I believe it was back in November. It is in the process now. My hope is that it comes to you in the very, very near future and that your Committee will sit down and confirm Mr. Glover as soon as possible. I do not know where it is at this particular point in time.

Senator PRESSLER. As you will recall, sloppy lending practices in California, one of the 7(a) loan program's biggest markets, resulted in millions of dollars of fraudulent loans being made—a burden borne by the American taxpayer. What is the current default rate for the 7(a) program? What type of progress has been made in the oversight of this program?

Mr. BOWLES. We have brought the loss rate for the 7(a) program down consistently over the last several years. I think it is around 2.13. He says it is 2.04 percent now. So the loss rate is pretty reasonable.

We did have a problem out in California for sure. It is a problem we discovered ourselves. Some loan packagers were presenting fraudulent tax records to the SBA. The way we discovered it is we looked at some of the margins for some of the businesses and they were out of line with industry margins for companies in that business.

We sent off to the IRS for the tax returns ourselves and we found out we were receiving some fraudulent tax returns. We immediately began to ask for tax returns from the IRS itself with every loan application we took in California and the problem dried up immediately.

We are now asking on a random basis throughout the country for tax returns and we believe this is a problem we have in hand. We are, however—the vast majority of the loans that we receive at the SBA now do come through a packager and as such we are now working with NAGGL to come up with a code of ethics for the loan packagers, as well as appropriate training and supervision for people in the loan packaging business.

Senator PRESSLER. Your budget calls for \$30 million to subsidize the repayment of high interest 503 loans. Why do you not offer a \$30 million offset beyond simply including the request in a budget that cuts other spending to pay for this program?

Mr. BOWLES. To the best of my knowledge, Senator, we are asking for the \$30 million for this program to offset the differential between the 504 and the 503 penalty. This is money we will get from the Treasury, it will go right back to the Treasury. It will not go to any of the borrowers.

Senator PRESSLER. Mr. Chairman, I have some additional questions for the record. I wonder if we could leave the question period open for the rest of the day for other Senators who also might have some.

The CHAIRMAN. We can and we will make that a part of the record. We will give the other members of the Committee, let us say, until the close of business on Friday evening to submit additional questions to the Administrator. Is that okay?

Senator PRESSLER. Very good.

The CHAIRMAN. We would only ask that you would answer them as expeditiously as possible for us.

Mr. BOWLES. Absolutely.

The CHAIRMAN. Mr. Bowles, we thank you very much for your testimony, and I know you need to get going, so we will adjourn this hearing.

Thank you, gentlemen, all of you, for being here today.

[Whereupon, at 3:30 p.m., the Committee was adjourned.]

[Additional material submitted for the record.]

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ADDITIONAL MATERIAL



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



APR 7 1994

Honorable Dale Bumpers
Chairman
Committee on Small Business
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Please find enclosed Administrator Bowles' responses to the written questions submitted by you and other members of the Senate Small Business Committee in conjunction with your February 22 hearing on SBA's fiscal 1995 budget request.

I hope this information is of assistance to you. Please do not hesitate to call upon me or Administrator Bowles if we can be of further service to you or the Small Business Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kris Swedin".

Kris Swedin
Assistant Administrator
for Congressional and
Legislative Affairs

Enclosures

ADDITIONAL QUESTIONS FOR THE RECORD TO ADMINISTRATOR ERSKINE BOWLES, U.S.
SMALL BUSINESS ADMINISTRATION

QUESTIONS FROM SENATOR BUMPERS

(1) *Microloans*: The Committee is quite concerned that the Administration's proposal to change the loans to the intermediaries from direct loans to 100%-guaranteed loans will adversely affect the program. It appears from SBA's charts that there will be practically no savings in the credit subsidy rate from this proposed change. Why change the program if it is working well now and there will be no savings?

Answer: We are considering moving to a 100% guaranty program because to do so would ultimately provide more leverage of taxpayer dollars, and we feel that we can do so in a prudent manner. The guaranties would only be extended to Micro Intermediary Lenders that have already been accepted into the program by SBA. These lenders are already authorized to receive direct government loans and they meet all the requirements of the program. Therefore the risk of a 100% guaranty is no more than the risk taken under our current direct loan program. We believe that the lenders can do an equally good—and possibly better—job in servicing the loan because they are on the scene. Finally, a guaranteed program will allow SBA to implement a revolving line of credit for the first 5 years of the loan. This would allow the intermediaries to build their portfolios and income streams during those years, and defer principal and interest payments until the last 5 years.

While it is true that there will be little budget savings in the first year of a guaranteed program, we expect that over time, our experience will show low losses that will bring down the subsidy rate and the cost of the program. Additionally, guaranteed loans are less costly to administer, and therefore, SBA would immediately realize savings in this area.

(2) *Small Business Institutes*: Please describe your rationale for proposing to eliminate the SBI program. Although it is a very small program—just over \$3 million per year—it serves about 6000 small businesses annually, often in sites where no other small business counseling is available. That seems to be an efficient use of Federal funds.

Answer: SBA has eliminated funding for the SBI program for FY 1995 because it is necessary to allocate our limited budget resources in the most efficient way possible. We believe the services provided by the SBI schools, while very valuable, are in some instances duplicative of SBDC services.

Of the 500 SBI schools, 177 are in the same physical location as SBDCs. We will be working with our SBDC partners to ensure that small businesses continue to receive the necessary assistance.

(3) *Small Business Development centers*:

(a) Since SBDCs have traditionally had an educational focus and have not charged fees for counseling services, how will the proposal to require them to charge counseling fees change their relationships with their small business clients?

Answer: The proposed fee should strengthen the SBDCs' relationships with their small business clients. The Agency believes that because the current SBDC counseling services are offered free-of-charge, some clients do not make efficient use of the counselors' time and energies.

Asking SBDC customers to pay a nominal charge for the service will encourage them to prepare for the session, thereby increasing the utility of the services and the efficiency of the program. Additionally, many SBDCs currently charge for training, and therefore have already established a relationship with clients that includes the collection of fees.

(b) What are your estimates regarding the cost of the accounting/management system needed to keep track of the fees?

Answer: Although cost estimates are not available, we believe that many SBDCs already have mechanisms in place to collect and account for fees, due to their current charging for training. Therefore, we feel that any additional cost of this proposal would be minimal.

(4) *Small Business Investment companies and Specialised SBICs*:

(a) How will SBA's new regulations affect an SBIC's ability to declare bankruptcy?

Answer: New regulations and activities being implemented by the Investment Division of SBA combine to (1) raise the quality of Licensees, (2) reduce the potential

for bankruptcy, and (3) potentially give SBA additional rights should a bankruptcy filing occur.

Changes to Regulations

In the future, all SBICs requesting leverage will be required to consent to an operating receivership upon the occurrence of certain events. This means that SBA, subject to judicial enforcement of this new requirement, would have the ability to apply for and receive the institution of an operating receivership without the objection of the Licensee. This will reduce delays that SBA has been subject to in the past.

In the future, all SBICs requesting leverage will be required to consent to the removal of officers, directors, and general partners upon the occurrence of certain events, and the replacement of such individuals with persons approved by SBA. This will permit corrective action prior to additional activities that would further diminish the value of a portfolio. SBA believes this right would be enforceable even if a Licensee has filed for protection under Federal bankruptcy laws.

By eliminating the financing of equity investments with Debentures, the new Participating Security will eliminate the mismatch between sources and uses of funds. This will reduce the need for Licensees to file for bankruptcy protection because of cash flow problems.

The prior approval by SBA of all secured third party debt should reduce a Licensee's exposure to third party creditors and thereby reduce the likelihood that the Licensee will need to file for bankruptcy protection or be placed into bankruptcy involuntarily. This will also reduce SBA's exposure as a subordinated guarantor.

For issuers of Participating Securities, third party debt is limited to Temporary Debt in an amount not to exceed 50% of Leverageable Capital (changed in 1991).

SBA subordination is limited to the lesser of \$10.0 million or 200% of private capital, and can only be in favor of certain lenders.

Operating Changes

SBA is requiring greater capital to obtain a license. A minimum of \$5.0 million is generally needed for a stand-alone SBIC issuing Debentures and \$10.0 million for an issuer of Participating Securities. Better capitalized SBICs are more likely to be successful.

A more rigorous licensing process with more demanding requirements to obtain a license will result in better qualified management.

Placement of the examination function within the Investment Division makes the examination function more responsive to the needs of the Division.

SBA is providing a standardized valuation policy for the first time. In addition, Licensees will be required to report valuations electronically which will enable SBA to make comparisons between Licensees and over time.

(b) In addition, there is a concern that the abolition of the preferred stock option for the specialized SBICs will virtually eliminate the inducement for an investment company to organize as a Specialized SBIC. What is SBA's analysis of the likely effects of eliminating SSBICs' preferred stock option?

Answer: For FY 1995 we did not request any authorization for 4% Preferred Stock for SSBICs. Debenture financing was increased, however, from \$17 million in FY 1994 to a requested \$65 million in FY 1995. Since debentures are guaranteed, at a 29.59% subsidy rate, while preferred is a direct obligation with a subsidy rate of 33.53%, we are able to offer more financing to SSBICs in debentures than we could in preferred with a comparable authorization. Interest on SSBIC debentures is subsidized for the first 5 years, bringing their current net cost, after subsidy, to around 4%.

In FY 1993, the budget for MESBIC direct financing was \$18.7 million, and \$12.4 million was actually used. For FY 1994, \$15 million was appropriated; during the first half only \$750,000 has been used.

QUESTIONS FROM SENATOR NUNN

A. Small Business Development Center (SBDC) Program

1. The Small Business Development Center's primary function is the education of small business owners; the owners' efforts and time contributions are the prime vehicle for this mission. How will the SBDC consulting fee affect this relationship?

Answer: The proposed fee should strengthen the SBDCs' relationships with their small business clients. The Agency believes that because the current SBDC counseling services are offered free-of-charge, some clients do not make efficient use of the counselors' time and energies.

Asking SBDC customers to pay a nominal charge for the service will encourage them to prepare for the session, thereby increasing the utility of the services and the efficiency of the program.

2. Universities, state governments, private businesses, and the SBA all play equivalent roles in the funding and operation of SBDCs. How would the proposed consulting fee affect the contributions (financial and otherwise) of these other institutions?

Answer: We do not believe that the proposed fee will alter the relationship SBA has with our SBDC resource partners. We are not aware that the states have any interest in charging fees.

3. SBA estimates the SBDC consulting fee will generate \$17 million in FY95. What are the administrative costs of managing the fee? What is the real return?

Answer: We do not have a firm idea of the cost of collecting and accounting for the fee. Because many SBDCs currently charge for training, we feel that the existing mechanisms used to collect these charges will be used for the counseling fees, thereby minimizing any additional cost.

4. Demand already exceeds SBDC's capacity to provide service for small businesses. How will administration of the consulting fee affect the availability of services?

Answer: The administration of the fee should have only a minimal impact on the availability of services. However, due to the charging of a fee for services that were previously provided free-of-charge, our forecast calls for SBDCs to provide about 1.1 million hours of counseling in FY 1995, which is slightly below the 1.2 million anticipated this fiscal year.

5. How will the consulting fee be levied? Will it be charged only for client-contact time? Will it also include preparation and travel time?

Answer: The fee will be levied only for the time that the SBDC counselor is with the client.

6. A per-hour consulting fee significantly alters the nature of the service provided by the SBDC. Private sector consultants will surely object to this change. How will these objections be met?

Answer: Historically, the Agency as well as the Association of SBDCs have been very sensitive to the potential for conflicts between SBDCs and private sector consultants should the charging of fees be permitted. Therefore, careful consideration was given to the amount of the fee. SBDC fees must not, under any circumstances, be competitive with fees charged by the for-profit sector. The \$15 per hour fee we are requesting is in fact well below what private sector consultants charge for comparable services.

SBA's proposed fee is also consistent with similar fees currently being charged by the Minority Business Development Centers operated the MBDA. The average MBDC charges a fee of \$50.00 per hour. However, that fee is subsidized by MBDA as follows:

Firms with annual revenues of less than \$500,000 receive an 80% subsidy from MBDA and pay only \$10.00 per hour.

Firms with annual revenues of more than \$500,000 receive a 65% subsidy and pay \$17.50 per hour.

The MBDA fee structure varies slightly based on the local economy, availability of alternative services, and the emphasis of the individual centers (i.e. loan packaging, business plan development, etc.).

7. Pre-venture and new firms are the primary benefactors of SBDC services. How will the consulting fee affect these enterprises? How will the fee impact other potential SBDC clients?

Answer: As noted earlier, the imposition of a fee will likely result in most clients being better prepared for counseling sessions. Additionally, SBDC counselors will be able to use their limited time more efficiently. Thus, clients should actually get better service from SBDCs than they currently do.

B. Surety Bond Guarantee (SBG) Program

1. Staffing for the Office of Surety Bond Guarantees is proposed to be reduced to 10 FTEs in FY95 from its current staffing of 59.3 FTEs in FY94. What is the justification for such a drastic reduction in staffing?

Answer: The SBG program is another area where the SBA had to make some difficult decisions regarding the level of funding requested relative to the overall SBA budget ceilings.

This program has the ability to absorb staffing and funding reductions due to its relationship with Preferred Sureties. Our proposal assumes that this relationship is

dramatically enhanced, converting the traditional program to a full partnership with the Preferred Sureties. In doing so, the SBA would transfer the underwriting, claims and recovery processes to the Preferred Sureties, freeing up agency staff and resources.

2. How will the Administration maintain any form of field network for SBG Program delivery at these levels?

Answer: With a 100% Preferred Surety program, SBA's role would become primarily one of program policy development and oversight. This would minimize our need for a large field staff component.

3. With such reduced staffing, how could the Administration maintain the prior approval SBG Program through which 75 percent of the surety bonds will continue to be written even after a fully successful implementation of the preferred SBG Program?

Answer: The number of surety companies that are now participating in the Preferred Surety Bond (PSB) Program has far exceeded original expectations. When the PSB Program was implemented, it was anticipated that five standard companies would enter the program. Currently thirteen of the largest standard companies are participating in the PSB program. As a result of SBA's marketing efforts and outreach activities, the program is now recognized as a good resource for standard companies to extend bonding accessibility to small and minority contractors.

Under the preferred surety program, we have experienced a much lower loss rate than on our traditional program. In addition, we are able to reduce administrative costs due to their doing the underwriting, claims, and recovery processing.

Currently, preferred sureties are responsible for about 22% of our approval activity and we use about 59 FTEs to underwrite bonds, process claims, pursue recoveries, and provide program policy, oversight and monitoring of sureties. Because of the success of our preferred surety program, we propose to use these preferred sureties in FY 1995 to operate our entire \$1.8 billion surety bond program. These sureties would then be responsible for all underwriting and claims and recovery processing. This will relieve the SBA of these operations, allowing a reduction in FTEs to 10 to continue with program policy, oversight and monitoring.

If our proposed expansion of the preferred surety program is approved by the Congress, we would need to actively recruit additional sureties to participate in this program to provide full geographic coverage. We would assure that all sureties that currently participate in our regular program, big and small, have an opportunity to participate as preferred sureties.

QUESTIONS FROM SENATOR BOND

Several months ago, I wrote you inquiring about SBA funds being used to create and distribute a glossy pamphlet promoting the Clinton health care plan and its supposedly beneficial effects on small business. Do you believe this was an appropriate use of SBA funds, and have you made any effort to educate small business owners about the pros and cons of any of the other plans that have been put forward?

Answer: The health care brochure we printed was developed specifically for the purpose of educating small business owners. Clearly, health care is the number one issue facing small business owners today. All of the health care proposals that are out there are complicated. We felt it in the best interest of the small business community to use some of the money that we have in our budget for publications to educate and inform small business owners. We have every authority under the Small Business Act to provide such informational services.

When we discussed small business and health care at the hearings on your nomination, I remember you saying, "I do intend to be a staunch advocate for the needs of small business and the effect that any health care solution can have on small business. . .". You also said, speaking hypothetically in the context of adding 7 to 10 percent to the payroll costs of small business, that "clearly when you eat up 7 to 10 percent of the dollars of any organization, if you do not have any return for those dollars it certainly could have some adverse consequences." In light of these statements, do you believe that an employer mandate, as proposed by the Clinton administration, is the best way to finance health care? How severely impacted would small businesses be were an employer mandate to be imposed? If you have any objections, have you expressed them to the administration?

Answer: I do believe that building upon the current employer based system, as provided for in the Clinton health care reform plan, is in fact the best way to go for small business, because married with the other elements of the President's program, it will bring stability, predictability and fairness to the small business health care marketplace, none of which exist today. Because small businesses have no negotiating power in today's health care marketplace, they pay 35 percent more for health insurance than big business, and they are experiencing a rate of increase 50 percent higher. Universal coverage will eliminate the massive cost shifting that is partly responsible for the massive increase to small business, and an employer based system is necessary to achieve universal coverage.

I am glad to see the inclusion of a Low-Documentation Loans program, a pilot project to reduce dramatically the paperwork and time associated with applications for guaranty loans of \$100,000 or less. I was curious as to what, if any, other initiatives have been advanced to cut down on the burdensome paperwork associated with SBA loans, particularly in the context of natural disasters?

Answer: First let me note that we are moving rapidly forward with our review of the Low-Documentation Loan program and barring any unforeseen problems, we expect to move expeditiously to implement it nationwide.

With regard to our Disaster Loan program, we have, in fact, simplified our application procedures and significantly reduced our processing time. During the Midwest floods of 1993, SBA implemented a simplified disaster business loan application, the response to which has been extremely positive. In response to the Northridge, CA earthquake in January of this year, SBA expedited the implementation of a simplified home disaster loan application. SBA no longer asks applicants to provide proof of ownership and legal descriptions of the damaged property at the time of application; instead, they are submitted later after processing is already underway. Finally, SBA has implemented an agreement with the Internal Revenue Service to provide tax return information directly to SBA, thus eliminating the delay and hassle of disaster victims having to obtain copies of their returns.

QUESTIONS FROM SENATOR KOHL

(1) *Farmers.* In Wisconsin, and throughout the nation, our farm population is an aging population. Many of these elderly farmers are reluctant to make the capital investments necessary to modernize their operations. This is particularly true for capital intensive forms of agriculture like dairy.

Many of these farmers would like to retire, but haven't been able to put enough money aside to do so. To the extent that these farmers make any money at all, they reinvest it back in their farms. So in many cases their farms are their retirement.

I have a bill that would allow retiring farmers, when they sell their farms, to roll over the proceeds of the sale into - an IRA, instead of having to pay the lump-sum capital gains tax at the point of sale. *Could you comment on this, and state what role you see SBA playing in addressing this problem of the aging farm population?*

Answer: The proposal you raise, that of providing a mechanism whereby farmers can gain retirement benefits from reinvestment of profits from the sale of their farms, would undoubtedly be of benefit to many small family farmers. Without some further study, however, I don't feel that I can make a determination of the feasibility of the program. Like you, the SBA is very concerned with the problems facing rural America—for example, declining family ownership of small farms and a shrinking business sector that traditionally has supported farm communities. In order to support our rural communities, we are constantly looking at ways to insure that SBA resources are funneled into those areas where the need is greater. I look forward to looking with you to address the problems family farmers face.

(2) *International Trade.* At a time when U.S. markets in many industries are growing slowly, international trade can be key to the survival of small businesses, allowing them to increase sales and profit margins and discover huge new markets. Unfortunately, small businesses have traditionally shied away from international trade.

Given the new markets which will now be open to U.S. businesses under NAFTA and the recent GATT agreement, is SBA doing anything to help small businesses take advantage of these new opportunities?

Answer: Yes, SBA continues to provide information to small businesses about the North American free trade area. Approximately 60,000 copies of the SBA publication *Opportunity in Mexico: A Small Business Guide* have been distributed to inform U.S. businesses about trade with Mexico. As follow up to this pre-NAFTA publica-

tion, we also provide to businesses the Flash Facts numbers for Mexico and Canada. These Department of Commerce Flash Facts provide information by fax about these markets.

SBA is exploring a number of ways to better assist small businesses with its export finance programs. Exporters who need transactional financing for a single export sale or a series of like sales should find it easier with the improvements to SBA's export working capital program. As part of the President's National Export Strategy, SBA and the U.S. Export-Import Bank are joining together to offer a more customer-oriented program that can be accessed through SBA's over 100 field offices. In addition to making the program more flexible for borrowers, SBA hopes to make the program both easier to use and more profitable for lenders.

In April 1994, SBA will present a trade finance component at the REP COM trade show in Monterrey, Mexico, where 150 U.S. businesses are expected to attend. The businesses will also receive individualized trade finance counseling about Mexico, on the floor of the trade show.

SBA will continue offering medium- and long-term financing to exporters through its International Trade Loan (ITL) and Regular Business Loan programs. The ITL can support up to \$1 million for U.S.-based facilities and equipment used to expand export markets. The Regular Business Loan program can finance up to \$750 thousand for a variety of purposes, including general working capital, and U.S.-based land, buildings, equipment and machinery.

Export education and outreach continue to raise awareness of export-related benefits, and address the basic educational and training needs of export business start-ups and companies that have never before exported. Businesses which are unsure of how to get started in international trade benefit from the SBA's one-on-one counseling by Service Corps of Retired Executives volunteers and Small Business Development Centers with international trade subcenters.

More targeted, intensive assistance is available for small businesses that have some experience exporting or whose prospects for international market development are good. The U.S. Export Assistance Centers (USEACs) are geared towards helping businesses at all levels of experience.

All of these activities will help small businesses take advantage of the new opportunities in world markets due to the recent trade agreements.

I am interested in the Export Trade Assistance Centers you mentioned in your statement. You mentioned that you are planning to expand these centers around the country. I think it's an excellent idea and I'd like to see such a center in Milwaukee. I am already hearing about interest in the business community there. *What can we do to open one in Milwaukee?*

Answer: As you may know, this project has already been launched in Miami, Baltimore, Chicago and Los Angeles. During this first year of operation we will be adjusting and fine tuning programs and services offered by the USEACs to fit the needs and demands of the export communities they serve. Should the services of the USEACs prove to be as helpful to the business community as we believe they will be, we will consider opening an additional ten sites next year to expand this service.

The Trade Promotion Coordinating Committee (TPCC) Working Group on USEACs is developing criteria which will be used to determine future site selections. These are based on statistical data and agency resources. We will keep your request in mind when considering future site selections.

(3) *Health Care Reform.* As I'm sure you know, one of the greatest concerns for small businesses these days is health care costs and the discussions here in Washington about health care reform, especially about the possibility of being mandated to pay a portion of their employees' health insurance.

Frankly, some don't trust that the Clinton plan's subsidies will be there in the future—and that they'll be left holding the bag. Others don't trust that the government and alliances will be able to keep the plan's cap on business payroll costs from rising. What do you say to small businesses that tell you they are worried about trusting that the Clinton plan won't make things worse for them?

Answer: I tell them that things cannot get worse, which is also what small business owners across the country have been telling me for many months. Because small business has no negotiating power in today's health care marketplace, they pay 35 percent more for health insurance than big business, and they are experiencing a rate of increase 50 percent higher. Universal coverage will eliminate the massive cost shifting that is partly responsible for the massive increase to small business, and an employer mandate is necessary to achieve universal coverage.

Small-business discounts will limit the impact on those businesses that currently do not offer health insurance, while many small firms will see a decrease in premi-

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ums. In short, the President's health reform program will bring stability, predictability and fairness to the small business health care marketplace.

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Senator ERNST. Okay. Thank you. And so, Administrator, yes or no, are you planning to start a 7(a) direct lending program immediately?

Ms. GUZMAN. The SBA has authority to do direct lending. We currently operate direct lending for disasters, which of course, does not perform at zero subsidy.

The request that you are referencing is for authority for the SBA to be able to charge the appropriate fees to have a zero subsidy impact program, you know, for direct lending. And that is what is in the '25 budget that you are referencing.

So, SBA doesn't have any current plans to do direct lending. Besides, of course, it is disaster lending, which it has been doing successfully for decades, you know, to help communities impacted by disasters.

Senator ERNST. Okay. So, you do not plan to use the direct lending authority outside of emergencies?

Ms. GUZMAN. We do not have some of the specific tools that we would like to have, you know, in order to do direct lending and not be in direct competition with our lenders who obviously distribute our loans effectively.

Senator ERNST. Okay. So, we will expect that only direct lending will be used for emergencies.

Ms. GUZMAN. That is what we are currently using it for under, you know, my leadership, correct.

Senator ERNST. Okay. Thank you, Administrator Guzman. Thank you, Madam Chair.

The CHAIR. Thank you. Can somebody check and see why the timing system is not working properly? Okay. We think it is working now? Okay. Senator Booker.

Senator BOOKER. Thank you, Chair Shaheen. Thank you, Administrator Guzman. I am just really excited. Your testimony had some really great data points there.

17 million new business applications being filed is an incredible testimony. The strength of the economy and the strategies of your office and the Biden Administration. In fact, the first, second and third strongest years of new business applications on record ever is a pretty great testimony to what is happening in our economy and under the leadership of our President.

We have seen historic SBA lending, also, as you pointed out, to underserved communities, women entrepreneurs. We are just seeing an incredible diversity there. And for me, there is no better symbol, especially not only to the power of entrepreneurialism in our country, but the redemptive possibility for people who have fallen, stumbled, or done wrong in the past.

As somebody who does believe in second chances, who does believe in redemption, who does believe that your past does not determine your future, the fact that the justice-involved people are starting businesses at extraordinary rates is encouraging to me. And we know that studies have shown that individuals with a criminal record are 50 percent more likely to become entrepreneurs compared to those without a criminal record.

But when looking to scale or seed their businesses, people who have been formerly justice-involved have bigger obstacles to access-

ing capital and have other barriers to actually getting businesses started.

I was pretty psyched in January when you joined with Vice President Harris and announced that the SBA would eliminate the burdensome red tape that held entrepreneurs back, an incredible step forward that has been championed by Senators on both sides of the aisle.

And so, can you—how will the changes that you all are proposing at the SBA be finalized so that these lending programs can provide justice-impacted individuals with greater opportunities to succeed in their small business endeavors?

Ms. GUZMAN. The proposed rule—thank you so much for that and thank you for your leadership on this issue as well. And I know it is a topic we have discussed multiple times.

The SBA is looking to streamline across all of its lending portfolio those rules to ensure that those who have served their time or who are justice-impacted, are not restricted from accessing loans to pursue their entrepreneurial dreams.

Simplifying the process for our lenders, ultimately, and in essence, banning the box by no longer restricting access to our programs. And these, the final rule, it should hopefully be published soon. We are still in the rulemaking process.

And so, once that is published, we hope to then, you know, follow the implementation schedule and move forward.

Senator BOOKER. Yes. I mean, when I was Mayor of the city of Newark. With just removing bureaucracy, hoops to jump through these boxes that you have to check and these other things, really helped to streamline opportunities for people.

And we forget it is not just these entrepreneurs. It is the jobs they create, the economy, and resources they bring to often underserved communities as well. So, I am really grateful to be continued partnership. We are going to continue to be watching and hoping to help in any way that we can. Federal contracts.

It is a way that so many big American companies, especially defense contractors, again, create so many jobs get so much money. But I am really concerned that the people that are small businesses, women run businesses, often don't get a chance to bid on these Government contracts.

And so nearly 50 years ago, Congress, in a bipartisan way, created a Federal program specifically designed to help socially and economically disadvantaged business owners compete, fairly compete, for contracts, arguing that multinational mega-corporations should not be the only ones that are capturing U.S. Government contracts.

We made a lot of progress. I am proud of that. And made a lot of progress making sure that women run businesses, economically disadvantaged folks are getting a fair shot. The 8(a) program, as we call it, has been really a critical pillar of the efforts to really make our contractors better reflect the Americans that there are.

But last summer, a Federal judge struck down parts of the 8(a) program in a move that really, I think, upends the decades of progress we have been making, and also the precedent that set really flew in the face of the original Congressional intent, bipartisan Congressional intent, of the 8(a) program.

And so, I applaud the SBA's efforts to improve supplier diversity and to ensure that small business owners are given the tools that they need to compete for Federal contracts. And so, can you just talk to me, how does last summer's case, court case, impacted the SBA's work to improve outcomes for these entrepreneurs?

Ms. GUZMAN. Thank you for that. We are pending final ruling on the ultimate case, and we are committed to complying with the law fully.

Just speaking back to the program, Eisenhower wanted the SBA to exist because of the industrial base and being concerned with making sure there could be innovation in small business.

So, completely agree with you. And these programs, all of our programs are really critical to making sure there are pathways to Government contracting. So, the status of the 8(a) program—

Senator Booker. And competition, because when you put these contracts—

Ms. GUZMAN. Competition and innovation—

Senator Booker [continuing]. You only get one qualifying bidder. It is ridiculous.

Ms. GUZMAN. So, we continue to support small businesses in Government contracting. And the 8(a) program continues, as we continue to comply with the law and monitor the pending final decision in this court case.

Senator BOOKER. Chair, thank you.

The CHAIR. Thank you, Senator Booker. Senator Budd.

Senator BUDD. Thank you, Chair. Administrator, thanks for being here. I want to follow up with Ranking Member Ernst's questions. I didn't—I was listening intently, and the answers weren't quite clear to me.

And here is what I am referring to. In the President's Fiscal Year 25 budget, it seems that the SBA is looking to revitalize an old authority. Now this is an authority that in your answer that you said you had but revitalized that authority and that hasn't been used since 1998, and to get back into direct lending to businesses to make small loans on a broad basis.

So, does—if you could help me understand this clearly, does the SBA intend to stand up this initiative and begin issuing direct loans before Fiscal Year 2025?

Ms. GUZMAN. I thank you for the clarification because what I did reference was that budget request. If given the tools to be able to properly implement direct lending, then we would be able to do that. Currently as is, as stands, we are not pursuing a direct lending program. But however, with the Fiscal Year 2025 budget—

Senator Budd. How would—thank you. How would you get those tools?

Ms. GUZMAN. The budget allows for SBA to charge the appropriate fees to make this a zero subsidy program.

Senator BUDD. Do you intend to get those tools?

Ms. GUZMAN. Correct- Well, they are proposed in the President's budget.

Senator BUDD. So, it sounds like you are—the budget proposes the tools. And if you had those tools, then you would begin direct lending.

Ms. GUZMAN. That's correct, yes correct Senator Budd. So, it sounds like you will begin direct lending.

Ms. GUZMAN. If the Congress moves forward with the budget in the proposal, yes, correct. In 20—and the Fiscal Year 2025 budget would create that authority. Thank you.

Senator BUDD. So, I understand that the SBA will use an interest rate increase to start, or excuse me, to fund the program. An interest rate increase to fund the program. What funds will you use to start the program? So, interest rates, an increase there will fund it. What would you use to start the program?

Ms. GUZMAN. The programs, you know, we have a very strong unified lending platform. The SBA has invested heavily in technology to shore up its programs at the SBA following the scale of the COVID pandemic.

Not only with the technology tools to be able to prescreen for fraud and eligibility across our 7(a) and 504 programs today. But in addition, we have a strong lending platform that is used in our disaster program.

So, we would be well positioned to be able to administer this direct lending program if given the authority and tools to be able to charge the appropriate fees for zero subsidy impact on the taxpayer.

Senator BUDD. Thank you. You know, it is interesting to me that after SBA substantially reorganized the 7(a) program, which is still continuing to pose challenges for 7(a) lenders, the Administration now wants to get back into direct lending, assuming you get these tools, which it sounds like you will.

So, in this case, it would be the lender, the underwriter, and the guarantor, which puts the agency in direct competition with the private sector. And you mentioned disaster, right? And I am not sure if that is a great example to support your case, because we look at EIDL or EIDL program to see how woefully incompetent the SBA is at facilitating lending.

So, Administrator, where did the SBA gain the confidence that it can be a good steward of taxpayer dollars and minimize losses below or even at par with industry standards?

Ms. GUZMAN. I am not sure exactly what you are referring to in the COVID EIDL, but presumably, you might be talking about the fraud. Note that the protections that are on all of our disaster EIDL programs were stripped away.

Those protections were removed in 2020. That is why you had the huge, you know, onset of fraud early on in the nine months operating in 2020. Those are, you know, institutional, controls that we have always had in place across our disaster program.

So, I would say that the COVID EIDL program is a very unique, you know, portfolio for the agency. Normally we are able to collect tax documents and check and clear for fraud and eligibility.

Senator BUDD. Thank you. Administrator, you mentioned fraud to the tune of \$200 billion worth of fraud.

You know, at the same time that SBA is loosening underwriting standards in the 7(a) program and standing up its own direct loan program, very concerning, the SBA has also announced that ILP loans or intermediary lending pilot programs, 7(a) loans and 504 loans, can now all be given to businesses associated with people

who have been indicted or currently on probation or parole for financial crimes, fraud, and violent crimes.

So let me say again, the SBA will now give Government backed, taxpayer funded loans to businesses associated with fraud and financial crimes, and all this after SBA disbursed an estimated, as I mentioned a moment ago, \$200 billion in fraudulent loans during the COVID-19 pandemic.

So, Administrator, given the SBA's recent track record in its various loan programs, do you believe now is the appropriate time to provide Government backed loans to known frauds and financial criminals?

Ms. GUZMAN. The SBA maintains its programs to control for the do not pay list. So, if they have committed fraud against the Government taking a PPP or EIDL fraudulently, they are banned from Federal programs, VA, SBA, you name it. So those individuals would not be allowed into the program.

So, we feel strongly that, you know, if you have served your time, you have a second chance in this country. If you are innocent until, you know, convicted and proven guilty. So, we want to make sure that we create pathways to entrepreneurship and to strengthening communities around this country.

Senator BUDD. Thank you. I yield.

The CHAIR. Senator Cardin.

Senator CARDIN. Thank you, Madam Chair. Administrator Guzman, it is always good to see you. I am going to give a little bit different perspective here because this committee played a key role developing the programs during COVID, starting with the PPP program and the EIDL program.

Under the previous Administration, and then continuing with the Restaurant Revitalization Fund, the Shuttered Venue programs. And I just want to give the bottom line. The bottom line is, look where we are today in our economy. We saved small businesses from going under during COVID.

They would not be here today but for these programs. Our economy would not be where it is today but for the bipartisan efforts made to save small businesses. Now, when we passed those programs, we didn't know, in fact we thought that the pandemic would be a much shorter duration than it was.

It was much more severe than we had anticipated when the programs were passed. And I say that because we had a grant program, basically the Paycheck Protection Program, which was—it was forgivable loans. And then we had the EIDL program. And I don't condone any fraud. Fraud needs to be dealt with.

We relaxed the rules intentionally because we had to get the money out quickly. That was a decision made by Democrats and Republicans. Actually, this committee was—had a Republican chair at the time.

So, it was done by both parties recognizing we couldn't—if we waited too long and got all the bureaucracy information, the businesses would be under the water and wouldn't- couldn't be saved. Again, I don't condone any of the fraud that has taken place, but it leads me to my first question, and that is a lot of small businesses are struggling, particularly smaller small businesses, with repayment of their EIDL loans.

This is through no fault of their own. They did what they had to, to stay afloat and now they are struggling. They haven't committed any fraud. They are just having challenges because of the circumstances surrounding their particular businesses.

And I recognize we have enforcement issues, and we have to—you have to do what you need to do. But is there a way of showing, or how are you showing compassion to those small business owners that we want to keep afloat through no real fault of their own, have been overextended and are now having a difficult time paying back these loans?

Ms. GUZMAN. Thank you for that question. And I have met with some of those businesses around the country as it is a still a common issue. This is a nearly \$4 million portfolio, unprecedented portfolio.

We have made every effort by investing at the front end in technology through my SBA. This unified lending platform that I referenced also does servicing on COVID EIDL, as well as, of course, our disaster programs.

This servicing enabled us to do more than, you know, 12 million calls, 8 million emails, and letters to make sure that we are constantly corresponding with these individuals. We have made a huge effort in the last few months of really bringing people back into repayment, making sure that the portfolio continues to perform way above expectations of what Congress originally set.

And in order to do that, we have allowed for hardship accommodations to bring people back into current status and current repayment. We know that that is the best path forward to collect this money on a long term basis.

If you impose lots of fees and, you know, triple the cost of that monthly payment on the loan, you are less likely to collect it from someone undergoing hardship. So, we have been able to bring back tremendous—tens of thousands of people back into current status as a result.

Senator CARDIN. Thank you for that. I am going to give you a little different view on direct loans. I think there are many small businesses that do not have commercially, desirable loans because they are so small in dollar amount they are not really the type of loans that commercial lenders want to get involved in.

So, I think a well-tailored direct loan program is something that could really help, particularly the smaller small businesses. So, I hope you get the authority, but I would urge you to work very closely with the committees to make sure it is set up in a way that carries out the objective and does not create additional burdens with the Small Business Administration.

I want to ask you one additional question on the CASBLCs. We had lots of discussions during the rulemaking events. I was a big fan of the Community Advantage 7(a) program. To me, it had transparency. They were doing—we knew what they were doing. They were reaching a market that was very difficult for a lot of small businesses and underserved communities to reach.

During the rulemaking, I was under the impression that you were going to continue with transparency on the CASBLCs so that we could see whether the metrics are being met by this new entity in reaching the underserved communities.

I haven't seen that information. Are you intending to deal with the transparency and data so that we can have a way of making it accountable, that the metrics in fact—that this new umbrella is reaching the communities we were trying to reach?

Senator CARDIN. Yes. In fact, since Community Advantage is trying to fill those gaps in the marketplace, that direct lending would hopefully eventually help support as well, it is our, you know, priority to continue to track performance, while we report fully on the 7(a) portfolio.

And they are part of it as part of our SBLC program. We are happy to continue to provide, you know, targeted performance data on the CASBLCs to this committee.

Senator CARDIN. I would hope that you would do that. Quite frankly, I would hope that you would do it beyond just our committee, that this would be public, transparent information that the broader community and stakeholders have confidence that how you are administering the CA programs today are meeting the expectations. Thank you, Madam Chair.

The CHAIR. Thank you, Senator Cardin. I know that I have a few more questions. I think Senator Ernst may as well.

I want to follow up on the COVID EIDL issue because, like Senator Cardin, I think people need to take responsibility and pay back their loans. But there are also some of those small businesses who are in difficult situations who may not have gotten clear communication. The servicing that was needed may not have taken place.

We have heard from some of those small businesses in New Hampshire that the customer service center allowed borrowers to slip through the cracks and land in default, either when they were making an effort to catch up on their payments, or they were unaware that they were in danger of being referred to Treasury.

So can you talk a little bit more about what we are doing to help those small businesses that are not committing fraud. They are really trying to make their payments. They don't want to be turned over to Treasury. What are we doing, and what more can we do to help those folks, working with Treasury?

Ms. GUZMAN. We continue to focus and prioritize on collections, but obviously with enhanced customer service, wanting these small businesses to succeed and not lose jobs across the country.

And so, we have, again, entered into an aggressive stance around hardship accommodation. You know, trying to truly accommodate, even if they can't bring their account to a current status, before entering into that hazard accommodation.

We know that, while the SBA has, you know, based on more recent studies, started referring our entire portfolio over to Treasury, we are making sure that we can continue to work with these businesses to allow them to come back into servicing with the SBA and maintain payments in a way that is responsible to the taxpayer, but also allows them to continue to be in existence, which is our ultimate goal.

The CHAIR. And so, what happens when they are turned over to Treasury?

Ms. GUZMAN. You know, Treasury offset begins with, you know, Treasury's efforts to try to collect as much as they can from any Federal payments due.

So, you know, tax refunds. If they happen to be a Government contractor, any Federal payments, multiple other programs. There is percentages taken from, you know, other payments that are due across the board, Social Security, some VA, etcetera. But that is the, you know, first step.

And then ultimately it goes to cross servicing for collection. And those—that third party servicing is where there is a much more truncated time that they are allowed to repay from 30 years to 10 years, and of course, a much higher, you know, penalty with a 30 percent payment on top—30 percent of their total loans.

So, this becomes more difficult for our small businesses to manage. And so, we are—, we want them to pay. We don't want them to close. And if closure is one option versus paying the SBA, obviously, we will pursue that and make sure we work with your constituents, and happy to hear from you directly if there are any specific cases that we have missed or have fallen through the cracks.

But every borrower has received multiple phone calls. They have received multiple emails as well as letter correspondence before going to Treasury.

The CHAIR. Well, thank you. I think we do have some businesses that we would like help on, so we will definitely share those with you.

One of the other areas, issues that I mentioned in my opening statement had to do with the State STEP program, the State Trade Expansion Program, which I think is very important to help our small businesses get into international markets.

Senator Ernst and I are working on some reform legislation to try and address some of the burdensome application and compliance requirements. But I think it is one area where we could really use help from SBA to improve the program and address administrative challenges.

So, can you talk about what you think SBA could do to help work to address some of those burdensome requirements?

Ms. GUZMAN. We have begun listening sessions with our STEP grantees to try to better understand how we can improve and streamline the program, and we want utilization. You know, I was just, highlighting in my last testimony one of our businesses in Kansas who has been able to use STEP.

And he has grown his business and has multiple jobs around the country—you know, in his hometown of—or home State of Kansas. So we really, truly want this to be successful, and we commit to continue to work with them to come up with solutions and in partnership with you.

The CHAIR. Well, thank you. One of the specific areas that we have heard about is that lenders have incomplete information about export financing options. And yet SBA proposed language this year to cut the number of export finance specialists. So, does it really make sense to scale back when that is an area that small businesses need?

Ms. GUZMAN. The—in terms of the export finance specialists, we are finding that there are other challenges, not necessarily having the export finance specialists in terms of the number of loans.

It is de minimis, a few hundred. So, the current 20 export finance specialists can handle that portfolio. We have been, you know, partnering obviously across our resource partners, our field offices to try to get more awareness of these programs.

And we are looking internally at how we can strengthen our working capital loans around export but within the 7(a) portfolio that exists, to make these easier to use for our bankers.

The CHAIR. Well, we look forward in—to working with you as we try and improve that program. Senator Ernst.

Senator ERNST. Thank you, Madam Chair. And I just want to reiterate again, as my staff and I were visiting on a sidebar here, just Administrator, I know you said that you deal with the sale of the SBLC licenses all the time.

But the SBA, as far as we know, has never granted a license to a company that intends to immediately turn around and sell the license. Typically, what we have seen in the past is that the SBA will grant those license to companies who plan to originate and service loans for a long period of time.

So, I do think the Funding Circle issue is a bit shady. That is for all of our C-Span watchers, shady will be the key word, and just want Funding Circle to know that we will be watching these activities. So, anyway, I am going to move on to the telework issue, which has been a really big issue for me over the course of about the last four years, maybe since we started it during COVID.

In response to my information request on telework, you stated that the telework employees are now required to show up to the office only two and a half days a week. And meanwhile, the SBA did set a very modest goal of reducing your physical footprint by 3 percent. GAO even rated your agency among the very worst for agency headquarters utilization, with a rate of just 9 percent.

The only agencies that were lower were Housing and Urban Development at 7 percent, physical space utilization, and the Social Security Administration at 7 percent utilization. So yes or no, do you agree with the GAO that your headquarters operated at 9 percent utilization all of last year?

Ms. GUZMAN. No, my data does not match that. That is—must be old data. Headquarters is currently at 50 percent, in terms of occupancy. And note that it is no longer two and a half days.

We are in the office five days per—or you said two days per pay period. It is now five days per pay period. And that is now nationally as well. And so, you know, we have continued to follow the White House's guidance in making sure that our staff is in the office and performing, and meeting with small businesses around the country.

Senator ERNST. Okay. I appreciate that. That GAO report information was from the end of last year. I think it was based on last year's numbers. And now, with the telework, you do not have teleworkers any longer or 50 percent?

Ms. GUZMAN. Our permanent SBA staff have returned to work to this five days a pay period stance. So, yes.

Okay. Pay period being?

Ms. GUZMAN. Every two weeks.

Senator ERNST. So, two and a half days per week.

Ms. GUZMAN. Per week, correct.

Senator ERNST. Okay. Are you—

Ms. GUZMAN. And that is at a minimum requirement. So, you have offices—it is really based on mission. Obviously our disaster team is in the office much more frequently. Our field offices go where they are needed in communities. And so, that is the minimum. It really is a mission focused.

And, leaders are, of course, encouraged to bring people in whenever there is collaboration or, you know, special focus that they need the folks in the office. But, you know, we have, you know, really upped our standard in terms of our meeting the requests of the White House to ensure that everyone is coming back into the office on a regular basis.

Senator ERNST. Okay. Do you know that you will have your employees return to five days per week?

Ms. GUZMAN. We continue to work with OMB and follow the guidance, obviously competing for Federal workforce to make sure that we can retain our workforce and fill vacancies aggressively across the Federal workers.

Senator ERNST. Okay. Now, I don't want folks to misunderstand me. Telework is fine as long as it is meeting your goals for those employees and that it is auditable. Do you know—are there standards in place to be able to go back and monitor the work product that is coming from the employees that are teleworking?

Ms. GUZMAN. SBA had to quickly shift during the pandemic to remote work, working tirelessly to get out the pandemic relief. So, we definitely invested in systems and processes to be able to maintain performance. And leaders, you know, continue to have tools to track performance of their workers, yes.

Senator ERNST. Okay. And thank you for that. It is a big issue with so many of the agencies. We do continue to receive information from actual employees within the various agencies.

So basically, our whistleblowers that are out there, that agencies are not responsive to our constituents. So, I do hope that the SBA is able to meet the needs of all of our small businesses and constituents across our various States.

This is something that will be very important to me moving forward, so I look forward to working with the SBA on these issues.

Ms. GUZMAN. And if I could add, we definitely hope to do so. The budget allows for us to continue to maintain the service that we are currently performing on our COVID pandemic programs, thus the increase. That funding is really critical.

Senator ERNST. Okay. Thank you, Administrator. Thank you, Madam Chair.

The CHAIR. Thank you. Let me just point out that the second vote has been called, so if nobody has voted yet, you should go vote. Senator Coons.

Senator COONS. Thank you, Madam Chair. And I will be brief since I have not voted. So, if I could, Administrator Guzman, it is good to see you again. Thank you for your leadership at the agency. We have talked in the past about SCORE.

I am fond of SCORE not just because it was founded in Delaware, but because in 2023, 10,000 volunteer mentors helped launch over 30,000 new businesses and create 20,000 non-owner jobs. I think that is fairly high performance.

I think they do a lot with a little. So, I was very disappointed to see SCORE cut by 40 percent in the President's budget request, and I will continue supporting a robust appropriation for SCORE. Help me understand the decision to deprioritize SCORE that aggressively.

Senator COONS. SBA's efforts in the past few years, which has as you know, paid off with increased lending in underserved communities has been about expanding the distribution networks across our lending and as well across our resource partner networks.

We know that our resource partners do an incredible job of meeting small businesses, serving them, however, they are not reaching enough. We have about 500,000 reached through our resource partner partners, about 500,000 through our field offices. There are 33 million small businesses.

And I consistently meet with small business owners who just need additional touch points, trusted local partners. Our effort is to try to incentivize the local development of entrepreneurial ecosystems by funding networks who can, you know, go out and seek additional funding as well, like the SBDCs do, like the WBCs do, etcetera.

So, this is really an attempt to manage too-limited resources, you know, across the SBA, but to try to continue to incentivize new entrepreneurial networks that can truly reach out and meet some of these underserved entrepreneurs.

Senator COONS. I am sorry, I didn't understand what that meant at all.

Well, I mean——

Senator COONS. You are trying to incentivize new entrepreneurial networks, but you didn't——

Ms. GUZMAN. Correct, like the Community Navigator pilot program, which I need to be more clear about it——

Senator COONS. Which I don't believe you funded at all?

Ms. GUZMAN. We requested for additional funding in this budget, which is why you saw some of the programs reduced. And we are hoping to incentivize the development of more strong entrepreneurial ecosystems, and the navigators can —

Senator COONS. So, what you are describing is your view of the value of community navigators.

Ms. GUZMAN. Sorry, yes.

Senator COONS. Rather than any negativity about SCORE.

Ms. GUZMAN. No, no, not at all. I am sorry. We——was sort of continuing off of the previous answer but you were not here, apologies.

Senator COONS. My apologies, I was in another hearing. I just introduced with Senator Kennedy the Small Business Contracting Transparency Act.

Congress has enacted requirements that a certain percentage of Federal contracts go to women-owned businesses, to service disabled veteran-owned businesses, to businesses that are small but in economically distressed areas.

And it seems that the Federal Government doesn't meet the benchmarks in those statutory commitments.

And I am hopeful that in working with you, we can get some technical assistance to make sure that this bill is actually providing constructive transparency on meeting commitments to these particular set asides. I know, as you just said, that you share my commitment to supporting underrepresented entrepreneurs.

What do you think are the most effective tools for doing so? And I think I just invited you to tell me why you are supporting Community Navigators. [Laughter.]

Ms. GUZMAN. Well, clearly we do. And one of our community navigators actually focused on contracting the U.S. Black Chamber. But truly, we think that we need to simplify the process.

And that cert was a program that we adopted from the Veterans—or took over from the Veterans Administration to make sure that our veterans had access to these important set asides and these programs.

We are going to be streamlining all of our certifications in line with what we did for the veterans and the service disabled veterans. And by doing so, hopefully increase the incentives and assure that we can have a more diversified base of contractors from which agencies can select.

Senator COONS. Thank you, Administrator. Thank you, Madam Chair.

The CHAIR. Thank you, Senator Coons. I am going to turn it over to Senator Rosen and ask Senator Markey if he would take over briefly as chair while I go vote, and I will be back shortly. Senator Rosen.

Senator ROSEN. Well, thank you, Chairwoman Shaheen, for holding the hearing. And Administrator Guzman, thank you so much for being here today and all of your hard work.

And so, I am going to talk about small business childcare, something near and dear to everyone's heart around the country because the rising cost of childcare is financially squeezing parents in Nevada.

And of course, across the country, we all know this. The average cost actually for infant childcare in Nevada is over \$13,000—\$13,000 a year. And lack of access to affordable childcare, it is a barrier for many parents who want to start or grow their business. And so, I feel that this is a crisis that demands action.

It is why Ranking Member Ernst, and I introduced the Small Business Childcare Investment Act, and our bill is going to increase the availability of affordable, high quality childcare for working families by allowing nonprofits, those nonprofit providers, to participate in the same SBA loan programs that eligible for-profit childcare providers have access to.

The legislation passed out of committee last summer. Senator Ernst and I are working very hard to get this done. It is long past due, and I just wanted to bring it up quickly. And so, Administrator Guzman, can you talk about how the crisis, the childcare crisis, how it impacts our small businesses and how finally passing this bipartisan bill, which doesn't cost anything, just allows our nonprofits access to programs that already exist, are going to help.

Ms. GUZMAN. We know that childcare and the infrastructure of that is really critical, especially for our women entrepreneurs who are starting businesses at double the rates of men right now.

We have tried to deploy more programs to help support these entrepreneurs, and we believe access to capital is one of the top barriers. So being able to buy your building so that you can sustain in a community long term, as an example, through our 504 program, or being able to get working capital with the 7(a) program or, you know, to be able to continue to sustain.

It is really important for our childcare entrepreneurs as well. And so, we are, you know, supportive of this bill and making the programs eligible for those nonprofit childcare centers as they are in our microlending program.

And we do think that access to capital for these business models that are highly challenged, it is difficult to operate profitably and in this environment for childcare, but it is so critical for entrepreneurship in this country.

Senator ROSEN. Well, thank you. Thank you for outlining the steps you are already taking. And I hope that we get this done. Another area that I was so pleased to have you come to Nevada and work with me on the Veterans Business Outreach Center, because Nevada is home to more than 200,000 veterans, over 23,000 veteran owned small businesses.

And so, despite all of that, until just this year, Nevada was without a dedicated in-state veterans business outreach center. Well, actually till last November, and when we opened the first VBOC to ensure that tailored support is provided to our veterans and the transitioning service members.

So, I really want to thank you for being there at the grand opening, for sharing with all of us in Nevada what you are working on and doing, and answering my call to authorize this really important, first ever VBOC in Nevada.

So, given that the SBA requested an increase in veterans outreach for the Fiscal Year 2025 budget, can you speak to the importance of these veterans business outreach centers and how they help ease the transition for servicemen and women? And how can we support existing VBOCs going forward in this mission?

Ms. GUZMAN. We were thrilled to expand from 22 to 28 and include a location in Nevada where there are so many veterans.

Veterans make incredible entrepreneurs, in terms of that grit and determination, and the teamwork, the ethic they bring, and so often have some of the traditional barriers that limit their access to capital.

You know, maybe not that personal wealth since they sacrificed in serving their country. And so, with unique set of challenges, unique set of skills, but also enjoying being around fellow veterans for trainings, you know, VBOCs are very popular.

And the more that we can get around the country with this—the President's request for additional funding, would really help empower more entrepreneurship. And especially as we just launched as well a military spouses initiative, Military Spouse Pathways, which enables us to do intensive training not only for Boots to Business and Reboot for our veterans, as well as for our exiting service members, but in addition, for the military spouses.

Senator ROSEN. Well, thank you for working on that for the military spouses. So, we hear about that all the time. They sacrifice as well as they move around the families and the children. And so, it is really important we support them too. So, thank you for your efforts, and I yield to Senator Markey.

Senator MARKEY. Thank you, Senator. So, welcome, Administrator Guzman. Thank you for all of your great work historically.

And what I would like to talk about is something that is central to Massachusetts, but also to our whole nation. And that is the programs administered by the SBA, which is the Small Business Innovation Research Program, SBIR, and the Small Business Technology Transfer Program.

And, you know, Massachusetts isn't just the Bay State. We are the brain State as well. We are only 2 percent of America, but we don't think of ourselves as just an ordinary 2 percent. We think of ourselves as the innovation State, which is where the Small Business Innovation Research Program and the Small Business Technology Transfer Programs come in, because we are a State of innovators, of pioneers in science and technology, research.

And we have cultivated a very innovative culture within our State. And as a result, Massachusetts has received 26,000 SBIR and STTR grants over the years—26,000 grants.

Now, we are a State of 7 million people, but it is estimated that upwards of 200,000 jobs in our economy have been created. And by definition, you focus on smaller companies, startup companies, innovative companies, cutting edge companies that are trying to make a breakthrough. And disproportionately they do.

And then it is reflected in our economy. And then sometimes larger companies want to buy these little companies, but you find that larger companies don't innovate the way smaller companies do.

And that is really what this whole program is about. It is to kind of unearth and incentivize that kind of innovative spirit that smaller companies tend to have and over time larger companies just lose hope.

The way they innovate is by finding the most innovative companies and then buying them, you know, and incorporating them. So that is why it is just so exciting to me to just to know that you are—you know that you are continuing to lead on that.

So, if you could, talk a little bit about those programs and the benefits of permanently extending them as something that American smaller innovative companies can rely upon.

Ms. GUZMAN. Thank you for that, Senator. And we are completely supportive of reauthorization of SBIR. America's Seed Fund has really empowered some of our largest brands, Qualcomm, 23 and Me, CRISPR technology.

We really know that ensuring that those small businesses commercialize and create—grow businesses and create jobs is really valuable. We are committed to continuing to support the 11 agencies that participate in this important research program and ensure that we strengthen the program, work with obviously Congress to ensure reauthorization.

But in addition to that, we know that there are still big funding gaps for these firms. It is amazing, they get this, you know, \$4 billion every year in non-dilutive funding to support their innovations.

But when we are trying to compete globally in critical technologies and advance in industries that are being created, we want to make sure that those businesses get funded. So, we have also worked in tandem to strengthen our small business investment company portfolio.

You know, also implementing, you know, transformative regulatory reform, this past summer, to create an SBIC model that is aligned with that long term investment that is necessary for some of these innovators and critical technologies. So, we are doubling down in this space and know it is vitally important.

Senator MARKEY. Yes. Now, in the last reauthorization, Congress placed caps on the number of awards some companies may obtain. And there has been proposals to add new arbitrary caps as well. Do you agree SBIR and STTR grants should continue to be awarded based on scientific merit?

Ms. GUZMAN. We do believe we need to seed innovation based on merits, and we will continue to try to support responsibly how we incentivize commercialization in the program as well.

Senator MARKEY. Yes. Well, obviously, the popularity of the SBIR program has led to substantial growth, and the program stands at nearly \$5 billion annually. You know, and that is the place where the innovators look.

That is the place where they can rely upon to say, I have got a great idea. I go to the SBA, you know, and make sure that my idea, my new cutting edge scientific or technology idea has a shot at ultimately becoming a reality.

Do you have adequate staff in the Office of Innovation to effectively manage the SBIR program?

Ms. GUZMAN. Since 2018, SBA has not received its full S&E requests, our salary and expenses. But, so obviously we would, you know, appreciate fully—being fully resourced across the board.

But in terms of the Office of Investment and Innovation, we have strengthened that office across the board, including in the SBIR program, creating for the first time as a senior executive service member to lead that office.

Senator MARKEY. So, access to capital is a big issue too. And under the Biden-Harris Administration and under your leadership, SBA has been laser focused on closing the capital access gap, particularly in underserved communities.

And the SBA has been successful, increasing the number of loans given to women and minority owned businesses, but even more can be done. The rate of entrepreneurship among communities of color is increasing exponentially.

In November of last year, however, the Boston Foundation found that unmet demand for capital for entrepreneurs of color has increased in Massachusetts since 2019, and it is estimated now to be \$600 million annually. And that is an unmet need in terms of, you know, that entrepreneurial spirit.

How can we continue to make progress closing the capital access gap for entrepreneurs of color, and how much can expansion of direct loans be a part of that solution?

Ms. GUZMAN. The regulatory reform that we implemented actually came from, you know, feedback from the lending institutions directly back when I served during the Obama, Biden Administration. Not as presented earlier.

And so, what I would say is that the regulatory reform is trying to get to the root of the problem of why small dollar lending is overly burdensome for our lenders. And that is the regulatory reform. But in addition, the expansion of our networks through the small business licensing companies, by providing additional 3 licenses on top of our 14 licenses to the very lenders who are focused on filling gaps in underserved markets and who are trying to do small dollar loans where people of color are over indexed.

You know, that is a critical part of our strategy, and it has led to success in terms of our increases in lending to these communities in particular. So, I am looking forward to those changes continuing to take hold. In addition, the President's budget includes a request for more authority for the SBA around direct lending.

We know that we don't want to compete with our lenders. We want our lenders to be able to do these loans. That is why we have tried to simplify as much as we can to transform our programs and underwriting processes.

But we do need to fill these capital gaps for entrepreneurship to continue to thrive, and we are looking forward to, you know, working with Congress on a positive solution for direct lending and continuing to fill gaps.

Senator MARKEY. Yes. And as you know, unfortunately, in the private capital markets over the years, there hasn't been enough competition in providing loans for women and minorities. It just hasn't existed.

You would think that somehow or another some paranoia inducing Darwinian environment would unfold, where banks, financial institutions say, let's loan to communities of color, let's loan to women.

It just hasn't happened. It is improving, but that is where the SBA steps in, you know, and just says—we can see where there is a historic problem and where innovation would thrive if women and communities of color receive that funding.

So that is why I just want to thank you for your great work, your historic work on it, and thank you for your service. And thank you, Madam Chair.

The CHAIR. Thank you, Senator Markey, for filling in the time so I could get back from voting. And what was your term? Darwinian paranoia—I like that. That is an interesting term.

Well, Administrator Guzman, thank you again for being here. Thank you for the work that you and everyone at SBA does every day on behalf of small businesses of this country. The record will remain open for two weeks for additional questions and statements.

And with that, the committee stands adjourned.

[Whereupon, at 3:50 p.m., the hearing was adjourned.]



Building a better financial world.

March 26, 2024

The Honorable Jeanne Shaheen
Chair
U.S. Senate Committee on Small Business
and Entrepreneurship
428A Russell Senate Office Bldg
Washington, D.C. 20510

The Honorable Roger Williams
Chairman
House Committee on Small Business
2361 Rayburn House Office Bldg
Washington, D.C. 20515

The Honorable Joni Ernst
Ranking Member
U.S. Senate Committee on Small Business
and Entrepreneurship
428A Russell Senate Office Bldg
Washington, D.C. 20510

The Honorable Nydia Velasquez
Ranking Member
House Committee on Small Business
2361 Rayburn House Office Bldg
Washington, D.C. 20515

Dear Chairs Shaheen and Williams and Ranking Members Ernst and Velasquez:

Funding Circle USA, Inc ("Funding Circle") is writing to address and clarify for the record statements made at the March 20th House and Senate committee hearings on the "Oversight of the U.S. Small Business Administration and Review of the President's Fiscal Year 2025 Budget Proposal" about its parent company, Funding Circle Holdings plc, and its US operating entities, FC Marketplace, LLC and FC SBA Lending, LLC.

Funding Circle Holdings plc ("FCH") is a leading publicly traded (LSE ticker symbol: FCH) online lending platform for small business financing in the United States and the United Kingdom. Founded to address the lack of availability of traditional credit sources for small businesses following the 2008 financial crisis, The Funding Circle group has originated more than 218,000 loans totaling more than \$22.2 billion to over 150,000 small businesses worldwide since 2010 and holds \$4.2 billion in loans currently under management. We maintain offices in San Francisco, California and Denver, Colorado in the United States and in London in the United Kingdom, and employ approximately 1,000 of the smartest, most hard working people in the industry dedicated to our mission of building the place where small businesses get the funding they need to win.

In the United States, Funding Circle is a state regulated non-depository lender that originates term loans directly through its website (www.fundingcircle.com) and through partners, with funding provided by banks, credit unions and community development financial institutions ("CDFIs"). Since 2013, Funding Circle has originated 57,000 loans totaling \$4.5 billion to 45,000 small businesses in all fifty states and the District of Columbia. Funding Circle's term loan product is a very simple and standard fixed-rate, 6 to 84 month term loan with a maximum original loan amount of between \$25,000 and \$500,000, with an average loan size of \$153,700 and average Annual Percentage Rate (APR) of 15.22%.

In 2015, Funding Circle co-founded the Responsible Business Lending Coalition (the "RBLC"), the leading US cross-sector coalition of nonprofit and for-profit CDFIs, fintechs, investors, and small business advocates that share a commitment to innovation in small business lending and a desire to combat the rise of irresponsible small business lending.

As a founding member of the RBLC, Funding Circle is a signatory to the Small Business Borrowers' Bill of Rights (the "BBOR"), the first cross-sector consensus on the rights that small business owners deserve and what financing providers,



brokers and lead generators can do to uphold those rights. We annually attest to the BBOR and believe the BBOR represents the industry gold standard for responsible business lending. Funding Circle is one of only a few for-profit lenders that possesses both the willingness and ability to meet the standards set by the BBOR.

Funding Circle increases access to capital quicker and at a lower cost for borrowers who are less likely to receive credit from traditional banks. Funding Circle is able to accomplish this by:

- reaching underserved communities. 33.32% of all Funding Circle current loans and 32.84% of all current dollars loaned by Funding Circle are to small businesses in low-moderate income ("LMI") neighborhoods. 40.50% of all Funding Circle current loans and 40.04% of all current dollars loaned are to small businesses in rural areas.
- extending credit beyond a traditional credit box. The majority of Funding Circle's current loans are provided to borrowers with FICO scores between 675 to 750.
- specializing in loans under \$150,000. 77% of Funding Circle loans are for an amount less than \$150,000.

Research conducted by the Bank for International Settlements ("BIS") and the Federal Reserve Bank of Philadelphia concluded that Funding Circle is *"increasing access to capital at a lower cost for small businesses who are less likely to receive credit from traditional banks..."* and *"predicting future loan performance more accurately than the conventional method to credit scoring, leading to better loan performance"*¹.

The study also found that Funding Circle:

- serves borrowers who are less likely to receive credit from traditional banks by employing alternative data to improve credit scoring;
- expanded credit access to underserved small business owners who are not likely to receive funding from traditional lenders;
- lent more in zip codes with higher business bankruptcy filings and higher unemployment rates as compared to traditional lenders;
- is able to predict future loan performance with internal credit scores more accurately than traditional credit scoring;
- provides credit to additional borrowers at lower cost compared to traditional bank business cards in terms of credit access and interest rates;
- played a role in facilitating loans to small mom-and-pop shops that did not have an established banking relationship during the COVID-19 pandemic;
- while most banks had to prioritize their existing business customers in processing PPP loan applications, Funding Circle entered the space to fill the credit gap helping smaller businesses who in some cases had less robust financial history than typical bank customers;
- established partnerships with community banks during the pandemic that made it possible for partnered banks to reach new customers and allowed small banks as a group to originate a larger share of PPP loans than their share of banking assets;

¹ See Cornelli, Frost, Gambacorta, Jaitani, *The Impact of Fintech Lending on Credit Access for U.S. Small Businesses* (2022).



- lent to many firms that, because of the owner's FICO score, would not have had access to bank loans;
- assigned ratings to each loan that were important in explaining the future credit performance of the loans over the 24-month period after loan origination; and
- uses information (in its process to risk-rank each loan) which is superior to the information content of traditional credit risk measures such as the FICO and Vantage scores.

Funding Circle's experience with government guaranteed lending

Funding Circle is proud to have supported the United State's economic recovery during the Covid-19 pandemic emergency as a Paycheck Protection Program ("PPP") lender. Funding Circle originated a total of \$685.2 million in PPP loans to 17,631 small businesses in the United States in 2020 and 2021.

Funding Circle took its statutory obligations under the CARES Act as an approved PPP lender seriously. In particular, Funding Circle followed its internal control policies and procedures in relation to due diligence and prudent oversight of prospective and contracted third-party vendors, including Lender Service Providers ("LSPs"), which we believe significantly helped reduce fraud during the PPP loan origination process. Funding Circle applied its customer identification and anti-fraud standards consistent with those used for its core lending program to the extent possible during PPP lending. Funding Circle also performed robust due diligence on third-party vendors seeking to act as LSPs for Funding Circle and did not contract with third parties or for service providers that did not satisfy Funding Circle CIP and anti-fraud standards.

In offering PPP loans, Funding Circle reached the smallest-scale small businesses:

- 85% of funded applicant businesses had fewer than ten employees;
- 29% were self-employed;
- 80% of PPP loans were for amounts under \$50,000;
- average loan amount of \$38,868; and
- median loan amount of \$20,254.

Funding Circle also reached communities underserved by traditional lending institutions:

- 81% of PPP borrowers were new to Funding Circle;
- 48% of second draw applicants received first draw from another lender;
- 23.54% of total origination value in dollars and 25.27% of loans were to borrowers in low-moderate income areas; and
- Funding Circle offered application support in English, Spanish, Mandarin and Hindi.

Funding Circle UK Ltd has worked with the UK Government-owned British Business Bank since 2013, including providing approximately \$4.0 billion in government guaranteed lending to thousands of businesses as one of the largest loan originators under the Coronavirus Business Interruption Loan ("CBILS") and Recovery Loan Schemes ("RLS").



Funding Circle US' responses to statements made during March 20, 2024 Congressional Small Business Committee Hearings

We want to address and clarify, for the record, inaccurate and misleading statements made at the hearings about the Funding Circle group and answer any questions posed.

"Reports indicate that Funding Circle has an investment from a Beijing based Fintech conglomerate and it is not clear whether the SBA knew it was giving access to loans guaranteed by American taxpayers to a company partially owned by the Chinese"

Funding Circle Holdings plc is a public company with a premium listing on the London Stock Exchange. No entity owns or holds, directly or indirectly, 20 percent or more of the economic interest of Funding Circle Holdings plc or any of its affiliates including as equity shares or a capital or profit interest in a limited liability company or partnership and there is no entity created in or organized under the laws of the People's Republic of China or the Special Administrative Region of Hong Kong on the current shareholder register.

We are aware of concerns raised regarding an investment in Funding Circle Holdings plc from a Beijing based investment fund, "CreditEase Fintech Investment Fund". Funding Circle Holdings Ltd (the legacy private, pre-IPO legal entity holding company of the Funding Circle group) received a de minimis investment from CreditEase Fintech Investment Fund as part of a late stage funding round (Series F) in 2017 representing a less than 0.5% shareholding at that time. Funding Circle became a public company on the London Stock Exchange (LSE) in October 2018, at which point CreditEase held 0.25% and fully divested its shares in February of 2021.

We are submitting for the record, an analysis of our shareholder register by RD:IR (an independent global investor relations consultancy that provides our monthly shareholder register information) from February 28, 2021 showing that CreditEase fully divested its de minimis interest in Funding Circle. We are also submitting the most recent register analysis as evidence that no Chinese owned entity is currently registered as a shareholder on our share register.

"Funding Circle's current Managing Director is the former COO of the Fintech Bluevine which aided in issuing fraudulent PPP loans"

Steve Allocca, Managing Director of Funding Circle US is among the most experienced executives in the small business lending industry, having led commercial lending at Lending Club, PayPal, Wells Fargo and Bluevine before joining Funding Circle in January of 2023. The Paycheck Protection Program (PPP) opened on April 3, 2020 and ended on May 31, 2021. Reports² state that an estimated 86% of the fraudulent activity in the Paycheck Protection Program (PPP) happened in the first nine months of the pandemic in 2020. Mr. Allocca joined Bluevine as COO in February 2021 (11 months after PPP began and 3 months before it ended) and in that time he did not have any management over the company's PPP program. Any assertion that Mr. Allocca (or Funding Circle US) was responsible for or associated with alleged PPP fraud is false and disingenuous to say the least. There has never been an enforcement action much less an allegation regarding Funding Circle and the Paycheck Protection Program because we followed our internal control policies and procedures in relation to due diligence and prudent

²

<https://www.nbcnews.com/news/us-news/200-billion-fraud-federal-covid-relief-ppp-eidl-sba-rcna91427#:~:text=SBA%20officials%20responded%20to%20the,distributions%20during%20the%20Biden%20administration>



oversight of prospective and contracted third-party vendors, including Lender Service Providers and applied our customer identification and anti-fraud standards consistent with those used for our core lending program.

"We have learned Funding Circle is selling their entire U.S. business with reports indicating they may try to sell their SBLC license too"

We are not intending to solely sell our SBLC license.

Funding Circle Holdings plc published its FY 2023 results³ on March 7th, 2024 and indicated that it has received expressions of interest in the U.S. business. However, those conversations are at an early stage and do not impact Funding Circle US or FC SBA Lending, LLC's (the SBA supervised entity) ability to maintain the minimum capital requirements set forth in CFR 120.471 or our preparations to begin offering SBA 7(a) small loans nationwide including Puerto Rico as soon as the SBA approves outstanding lender oversight requirements.

"Questions also remain if Funding Circle US is financially sound"

As of the end of the last fiscal year, Funding Circle Holdings plc had \$216 million in unrestricted cash and FY results showed a loss of \$4.96m AEBITDA, because it made planned strategic investments in Funding Circle US and new products in the UK. Funding Circle Holdings plc is well capitalised and financially sound.

"Funding Circle CEO states they do not have sufficient capital and are looking to sell"...Funding Circle CEO states, they do not have sufficient capital to make SBA loans"

In its FY Results⁴ which were published on March 7, 2024, Funding Circle Holdings plc stated:

"Whilst the US business offers attractive long term growth, it also requires a significant amount of cash and capital to grow the SBA proposition and we don't believe that this is the best course of action for the Group. We have received indications of interest for the US business and will update further in due course."

This statement does not state that Funding Circle does not have sufficient capital to make SBA loans and it does not state we are looking to sell our SBLC license. The report does state the business has decided to focus its capital on its UK business in the long term and that it has received interest from third parties for its U.S. business but those conversations are at an early stage. Meanwhile, Funding Circle US remains sufficiently capitalised and is continuing to prepare to expand its product offering to include 7(a) small loans under \$500,000 as soon as the SBA approves outstanding lender oversight requirements.

"SBA has never granted a license to a company that intends to immediately turn around and sell the license"... "it does seem they are using their SBLC license as a bargaining chip for their sale"

Funding Circle does not intend and has never "intended to immediately turn around and sell the license" or "use it as a bargaining chip".

³ <https://corporate.fundingcircle.com/media/press-releases/full-year-2023-results/>

⁴ <https://corporate.fundingcircle.com/media/press-releases/full-year-2023-results/>



"We do know Funding Circle has been lobbying for this license and has been actively trying to loosen the underwriting"

It is not accurate to state that Funding Circle US has been actively trying to "loosen" underwriting. Funding Circle states in our policies submitted to the SBA that 1) we are only offering SBA 7(a) small loans under \$500,000, 2) we only plan to offer loans to borrowers that meet the minimum SBSS score, and 3) that we will conduct the same underwriting procedures as we do for our similarly sized, non-SBA loans. As previously noted, research conducted by the Bank for International Settlements ("BIS") and the Federal Reserve Bank of Philadelphia concluded that Funding Circle is "increasing access to capital at a lower cost for small businesses who are less likely to receive credit from traditional banks..." and "predicting future loan performance more accurately than the conventional method to credit scoring, leading to better loan performance".

We also submitted a public letter⁵ in response to an official SBA notice of proposed rulemaking (NPRM) advocating for safeguards to the program and the need for transparency in the SBLC licensing process and the trade association in which we are a member, ILPA submitted a comment letter⁶ as part of the proposed rule regarding affiliation and lending criteria. We are supportive of many of the changes SBA made to its rules regarding 7(a) small loans under \$500,000 because they ultimately allow and encourage lenders to make smaller dollar loans to underserved communities and to be able to do so profitably by modernising the SBA's standard operating procedures to align with modern digital lending processes and procedures for small loans that have been tested and validated over the last decade.

Funding Circle US has long publicly advocated for increased lender participation and competition in the 7(a) program due to the long standing oligopoly that has existed for the last 40 years. With interest rates and borrowing costs still on the rise, 50% of banks have imposed stricter lending standards on small businesses⁷. Nearly half of business owners applying for credit to start, run or grow their businesses experienced funding gaps, and only 51% of applicants received the full amount of financing sought. Minority-owned businesses are disproportionately impacted with 51% of Black-owned businesses, 40% of Hispanic-owned businesses, 36% of Asian-owned businesses, and 30% of White-owned businesses experiencing financial challenges due to lack of credit availability⁸.

The Small Business Administration (SBA) 7(a) program is designed to serve creditworthy small business borrowers who cannot otherwise obtain credit at reasonable terms and do not have other sources of financing. However, out of the more than 11,000 banks and credit unions in the U.S., relatively few participate in the program. In fact, 83% of community banks failed to make a single 7(a) loan in the two years leading up to the pandemic and 25 lenders make 50% of all 7(a) loans which average more than \$500,000 failing to meet the needs of truly small businesses that need access to loans under \$150,000.

It is because the SBA has simplified, modernised and streamlined the 7(a) small loan program that it became economically feasible and attractive enough for us to make the investments necessary to offer this product and we believe that more lenders will also join the program and more underserved small businesses will gain access to credit as a result.

⁵ <https://www.regulations.gov/comment/SBA-2022-0013-0067>

⁶ <https://www.regulations.gov/comment/SBA-2022-0012-0083>

⁷ <https://www.axios.com/2023/07/31/bank-loans-tighter-federal-reserve>

⁸ <https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms>



"they don't have the capital to offset the new SBA loan losses and they have an active foreign investor that may pose a national security threat"

As of the end of the last fiscal year, Funding Circle Holdings plc had \$216 million in unrestricted cash and is well capitalised and financially sound. Funding Circle maintains the minimum capital requirements set forth in CFR 120.471 in order to offset any SBA loan losses in accordance with our business plan submitted to the SBA.

Funding Circle Holdings plc (LSE: FCH) does not have an active foreign investor that poses a national security threat. We are submitting for the record, an analysis of our shareholder register by RD:IR (an independent global investor relations consultancy that provides our monthly shareholder register information) from February 28, 2021 showing that CreditEase had fully divested its de minimis interest in Funding Circle. We are submitting for the record the most recent register analysis as evidence that no Chinese owned entity is currently registered as a shareholder on our share register.

"The relationship between SBA and Funding Circle is very suspicious"

Funding Circle has participated in formal public requests for comment on proposed rules and formally applied for an SBLC license in accordance with the rules and regulations the SBA established for the SBLC application process. Since being awarded the SBLC license in November, 2023, we have remained in constant contact with the SBA as it is now our prudential federal regulator and we are in the process of finalising outstanding lender oversight requirements.

Senator Ernst: "I do think the Funding Circle issue is a bit shady. I just want Funding Circle to know we will be watching these activities"

We are proud to have loaned more than \$4.5 billion to 45,000 small businesses in the U.S. since 2013 (including \$11.9 million to 104 small businesses in Iowa generating \$4.9 million in tax receipts and supporting 171 jobs). An estimated 33% of these loans have gone to businesses in low-moderate income areas and ~40% have gone to businesses in rural areas. As an SBA lender, we estimate we will be able to provide at least \$2.5 million to 35 small businesses in Iowa over the next 3 years adding \$5m to the state's GDP. We intend to continue operating with complete transparency and in good faith as we continue to work closely with the SBA to finalise our licensing process and hope Senator Ernst and the Committee will support us in our mission to expand access to affordable capital to America's small businesses.

Sincerely,

Funding Circle US

cc: Isabel Casillas Guzman, Administrator, Small Business Administration



1	Overview	15	Glossary
2	Fund Manager Overview		
3	Buyers & Sellers (Fund Manager)		
4	Top 200 Fund Manager Shareholdings (Size)		
5	Style of Fund Manager Analysis		
6	Top 100 Owner Shareholdings (Size)		
7	Sector of Owner Analysis		
8	Style of Owner Analysis		
9	Country of Fund Manager		
10	Country of Fund Manager Breakdown (0.5% & above Size)		
11	Top 20 Overweight Holders Relative to the Market		
12	Top 20 Underweight Holders Relative to the Market		
13	Top 20 Non Holders Relative to the Market		
14	Fund Manager Shareholdings (1% & above Breakdown Size)		

Region of Fund Manager

■ UK ■ North America ■ Western Europe ■ Other (9%)

Style of Fund Manager

■ Div & Ven Cap ■ Growth ■ Value ■ Other (29%)

Top 5 Buyers & Sellers - Shares (M)

Category	28-Feb-21 (M)	15-Feb-21 (M)
Money Only	1.25	1.25
Jointer Asset Management	1.00	1.00
Variegated Group	0.75	0.75
Polar Capital	0.50	0.50
Infection Investments	0.25	0.25

Category	28-Feb-21 (M)	15-Feb-21 (M)
Newest Holdings	1.25	1.25
Individuals	1.00	1.00
Creditor	0.75	0.75
Stating New	0.50	0.50
Holdings (EO)	0.25	0.25

Top 10 Holders [% of ISC]

Holder	28-Feb-21 [% of ISC]	15-Feb-21 [% of ISC]
Index	15.00	15.00
Ventures	12.00	12.00
Active/Reliance	10.00	10.00
Asset/London	8.00	8.00
Management	6.00	6.00
1.281	4.00	4.00
Flow Price	3.00	3.00
Global Investments	2.00	2.00
Directors	1.00	1.00
Jointer Asset Management	1.00	1.00
DST Managers	1.00	1.00
Capital Group	1.00	1.00
Unio Square	1.00	1.00
Ventures	1.00	1.00
Nearly One	1.00	1.00

Pie chart percentages are calculated on number of shares identified

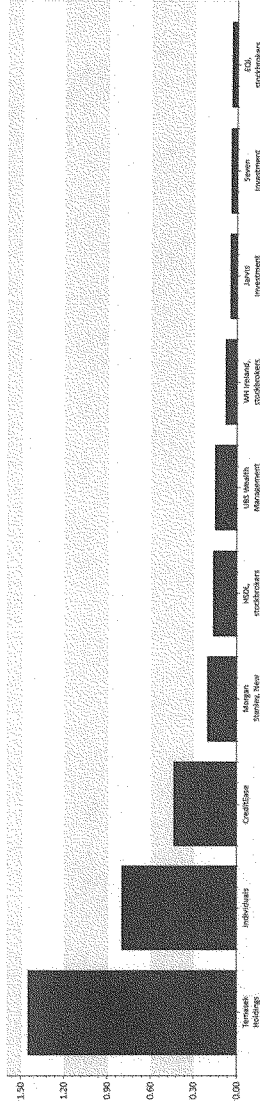
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3

Funding Circle Holdings plc (Ord 0.1p)
Section 3: Buyers & Sellers (Fund Manager)

Share Register Date: 28-Feb-21

Top 10 Sellers - Shares (M)

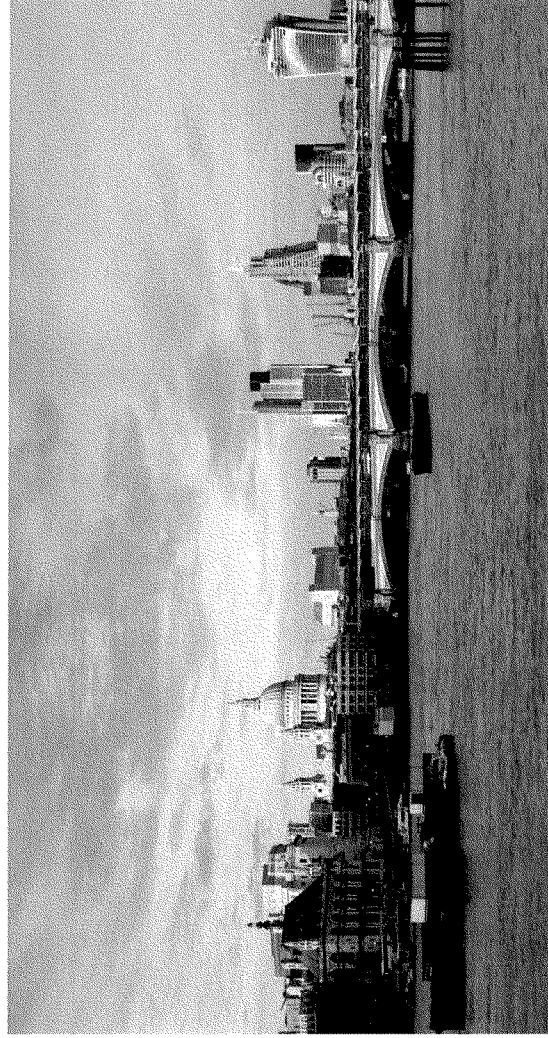


Curr rank	Prev rank	Fund Manager	Style	% Decrease	Shares decrease	Holdings at 28-Feb-21	% of ISC at 28-Feb-21	% of ISC at 15-Feb-21
53	25	Temasek Holdings	GARP	0.41	1,446,128	315,341	0.09	0.50
19	18	Individuals	Retail	0.23	793,925	4,169,646	1.18	1.41
	47	CreditEase	Growth	0.12	433,582	0	0.00	0.12
83	59	Morgan Stanley, New York (NO)	Retail	0.06	200,968	71,050	0.02	0.08
63	49	HSDL stockbrokers (EO)	Retail	0.05	161,156	217,217	0.06	0.11
97	69	UBS Wealth Management	Value & Growth	0.04	146,904	45,280	0.01	0.05
	86	W H Ireland stockbrokers	Retail	0.02	75,000	0	0.00	0.02
74	74	Jarvis Investment Management (EO)	Retail	0.01	45,188	104,167	0.03	0.04
30	30	Seyen Investment Management	Quant	0.01	40,000	1,115,000	0.32	0.33
15	14	EQI stockbrokers (EO)	Retail	0.01	36,854	8,307,052	2.35	2.36

Shareholder Analysis

Funding Circle Holdings plc (Ord 0.1p)

29 February 2024



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Funding Circle Holdings plc (Ord 0.1p)
Section 4: Top 200 Fund Manager Shareholdings (Size)

Curr Rank	Prev Rank	Fund Manager	City	Style
1	1	Index Ventures	London	Priv Eq/Ven Cap
2	2	Aktieselskabet af 2.7.2018	Copenhagen	Corporate
3	3	Accel London Management	St Peter Port	Priv Eq/Ven Cap
4	4	Schroder Investment Management	London	Value & Growth
5	5	JO Hambro Capital Management	London	Value & Growth
6	6	DST Managers	London	Priv Eq/Ven Cap
7	7	Samir Desai	London	Directors
8	8	Funding Circle Employee Benefit Trust	London	Employees
9	9	Capital Group	Los Angeles	Value & Growth
10	10	James Meekings	London	Retail
11	11	Inflection Point Investments	London	Hedge
12	20	Harwood Capital	London	Activist
13	14	Andrew Mullinger	London	Retail
14	13	EQi, stockbrokers (EO)	London	Retail
15	15	Ninety One	London	Value
16	16	Amiral Gestion	Paris	Value & Growth
17	17	Hargreaves Lansdown, stockbrokers (EO)	Bristol	Retail
18	18	Funding Circle Employee Share Scheme	London	Employees
19	19	Wellington Management	Boston	Value & Growth
20	21	Ribbit Capital	Palo Alto	Priv Eq/Ven Cap
21	28	Barclays Capital collateral account	London	Trading
22	22	Individuals	London	Retail
23	23	Killik, stockbrokers	London	Retail
24	24	Legal & General Investment Management	London	Hybrid

Funding Circle Holdings plc (Ord 0.1p)
Section 4: Top 200 Fund Manager Shareholdings (Size)

Curr Rank	Prev Rank	Fund Manager	City	Style
25	25	BlackRock	London	Hybrid
26	26	Directors	London	Directors
27	27	Quai Investment Services	Peterborough	Retail
28	29	JPMorgan Chase Bank (PB)	Luxembourg	Retail
29	-	UBS collateral account	London	Trading
30	30	Interactive Investor (EO)	London	Retail
31	31	Interactive Brokers (EO)	London	Retail
32	32	Wilton Trust	Taunton	GARP
33	33	Vanguard Group	London	Index
34	63	Winterflood Securities CREST transition account	London	Trading
35	34	Seven Investment Management	London	Quant
36	78	Deutsche Numis CREST transition account	London	Trading
37	35	LGT Wealth Management	London	Retail
38	36	HSDL, stockbrokers (EO)	Halifax	Retail
39	38	Barclays Smart Investor (EO)	London	Retail
40	37	IG Markets, stockbrokers (EO)	London	Retail
41	40	AJ Bell, stockbrokers (EO)	London	Retail
42	39	Goldman Sachs collateral account	London	Trading
43	41	Edale Capital	London	Hedge
44	42	EFG Private Banking	Zurich	Retail
45	43	Dimensional Fund Advisors	Austin	Quant
46	53	Fidelity (platform)	London	Retail
47	47	RBC Brewin Dolphin, stockbrokers	London	Retail
48	46	Raymond James Investment Services	London	Retail

Funding Circle Holdings plc (Ord 0.1p)
Section 4: Top 200 Fund Manager Shareholdings (Size)

Curr Rank	Prev Rank	Fund Manager	City	Style
49	48	abrdn	Edinburgh	Value & Growth
50	50	Union Bancaire Privée	Geneva	Value & Growth
51	51	Barclays Bank, Monaco (PB)	Monaco	Retail
52	65	Barclays Capital as prime broker or principal	London	Trading
53	49	Julius Baer Private Banking	Zurich	Retail
54	64	Evelyn Partners (Retail)	London	Retail
55	52	SSGA	London	Hybrid
56	55	Redmayne Bentley, stockbrokers	London	Retail
57	56	Janus Henderson Investors	London	Value & Growth
58	57	Pictet & Cie (PB)	Geneva	Retail
59	58	Geode Capital Management	Boston	Quant
60	59	Hypovereinsbank	Munich	Retail
61	86	HSBC James Capel as principal	London	Trading
62	61	Deutsche Bank Private Banking	Frankfurt	Retail
63	62	Charles Schwab, New York (ND)	New York	Retail
64	45	CA Indosuez Wealth Management	Luxembourg	Value & Growth
65	66	Fretrade, stockbrokers (EO)	London	Retail
66	44	Banque Internationale a Luxembourg, Luxembourg (PB)	Luxembourg	Retail
67	83	Bank of America Merrill Lynch International as principal	London	Trading
68	68	Pictet & Cie, Luxembourg (PB)	Luxembourg	Retail
69	109	Platform Securities Platform Services	London	Retail
70	70	Charles Stanley	London	Retail
71	71	Bank of Nova Scotia as principal	Toronto	Trading
72	54	Banque Federative de Credit Mutuel (PB)	Strasbourg	Retail

Funding Circle Holdings plc (Ord 0.1p)
Section 4: Top 200 Fund Manager Shareholdings (Size)

Curr Rank	Prev Rank	Fund Manager	City	Style
73	72	Saxo Bank	Copenhagen	Retail
74	73	Club Club Circle Partners	Milwaukee	Priv Eq/Ven Cap
75	74	Bourse Direct	Paris	Trading
76	76	Storebrand Asset Management	Oslo	Index
77	77	Morgan Stanley, New York (ND)	New York	Retail
78	80	HSBC Private Bank	London	Retail
79	78	Commerzbank Private Banking	Frankfurt	Retail
80	67	Singer Capital Markets as principal	London	Trading
81	81	Jarvis Investment Management (EO)	London	Retail
82	82	UBS Wealth Management	Zurich	Value & Growth
83	84	National Financial Services (EO)	New York	Retail
84	85	Nordea Bank, Copenhagen (PB)	Copenhagen	Retail
85	75	JPMorgan Securities CREST transition account	London	Trading
86	88	Royal London Asset Management	London	Growth
87	89	Mellon Family Investment Company	Pittsburgh	Priv Eq/Ven Cap
88	91	Aviva Investors	London	GARP
89	104	Embark Investment Services (EO)	London	Retail
90	92	Fortis clearing account	Amsterdam	Trading
91	94	SG as principal	Paris	Trading
92	-	Investec Bank CREST clearing account	London	Trading
93	95	Idealing, stockbrokers (EO)	London	Retail
94	96	Transact (EO)	London	Retail
95	115	ING-DIBA, Frankfurt (PB)	Frankfurt	Retail
96	97	HSBC Trinkaus & Burkhardt	Frankfurt	Retail

Funding Circle Holdings plc (Ord 0.1p)
 Section 4: Top 200 Fund Manager Shareholdings (Size)

Curr Rank	Prev Rank	Fund Manager	City	Style
97	87	UBS as principal	London	Trading
97	98	Banca Popolare di Sondrio, Lugano (PB)	Lugano	Retail
99	99	GPIM	London	Retail
100	101	Thayer Street Holdings	New York	Priv Eq/Ven Cap
101	100	Stichting DeGiro	Amsterdam	Retail
102	102	Columbia Threadneedle Investments	London	Value & Growth
103	103	Danske Bank	Copenhagen	Retail
104	105	Walker Crips Investment Management	London	Retail
105	107	Citi Private Bank	Zurich	Retail
106	108	Berenberg Bank	Hamburg	Retail
107	110	UBS Asset Management	London	Value & Growth
108	112	P2P Equity Partners	New York	Priv Eq/Ven Cap
109	113	Consorsbank (custodian refuses to disclose)	Nuremberg	Withheld
110	114	BNP arbitrage account	Paris	Trading
111	116	Shore Capital, stockbrokers (ND)	London	Retail
112	111	Stifel Nicolaus Europe as marketmaker	London	Trading
113	117	Nykredit Bank, Copenhagen (PB)	Copenhagen	Retail



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Senate Committee on Small Business and Entrepreneurship Hearing
March 20, 2024
Follow-Up Questions for the Record

Questions for Administrator Guzman

Questions from:

Chair Shaheen

Field Office Staffing

QUESTION 1:

As I requested during the hearing, can you please share current overall staffing levels for each SBA field and regional office and indicate where there are vacancies, how long those vacancies have been open and when SBA anticipates filling them?

Please see the attached chart for the current staffing levels.

The 59 vacancies are in various stages of recruitment. SBA follows a 180-day recruitment model. It is anticipated that the recruitments currently in process will be completed within approximately 90 days.

COVID Economic Injury Disaster Loan (EIDL) Charge Offs

At the beginning of March, SBA began charging off thousands of delinquent COVID Economic Injury Disaster Loans (EIDLs) to the U.S. Department of the Treasury. I want to thank you for offering to assist us with some specific EIDL cases we have heard about. My staff has shared these with you and are looking forward to working with your staff on assisting these constituents.

As you shared during the hearing, when loans are charged off to Treasury, borrowers face a much shorter loan maturity and must pay an additional penalty on top of their debt that can be devastating for already struggling small businesses. Treasury also withholds tax refunds, social security payments and VA payments to pay off these debts. If the borrower was a government contractor, Treasury intercepts payments made to the business. For small businesses that were already struggling to pay off their loans, these additional penalties, especially in the case of government contractors who rely on these payments for their income, can be ruinous.

In order to understand the scope of this problem, it is imperative that we have access to accurate data.

QUESTION 2:

In total, how many COVID EIDLs have been charged off to Treasury? How many more are pending?

As of May 3, 2024, SBA has referred 903,481 COVID-19 EIDLs in the amount of \$58.1 billion to the Treasury Offset Program (TOP) for collection. Additional referrals will be made to TOP if/when other loans become 120 days delinquent, and to Cross-Servicing, for loans that surpass 180 days delinquency and for which SBA has exhausted available collection methods at its disposal.

Since the expanded Hardship Accommodation Plan (HAP) enrollment process opened in February 2024, the SBA has received borrower collections totaling \$77,293,051 on loans that have enrolled in HAP. Note that this includes borrowers who were on HAP prior to February 2024.

QUESTION 3:

Are you able to provide data on this for each state?

SBA provided this data to your staff via email on April 3, 2024.

You mentioned at the hearing that SBA has taken an aggressive stance on Hardship Accommodation in order to address the high volume of COVID-19 EIDLs that are being charged off to Treasury.

QUESTION 4:

What specifically does the Hardship Accommodation Plan (HAP) currently do for borrowers?

SBA's HAP temporarily lowers payments for SBA borrowers who are experiencing financial difficulty. Borrowers can enroll in HAP even if they are currently delinquent on their loan (they do not need to bring the loan current). Small businesses with COVID-19 EIDLs of \$200,000 or less can enroll online through MySBA in just a few minutes.

Each HAP enrollment lasts 6 months, and borrowers can enroll up to four times for a total of two years of reduced payments that gradually increase. Borrowers on a HAP can pay as low as 10% of their usual payments for the first year, then 50% for the next 6 months, and then 75% for the final six months of the HAP. Importantly, interest continues to accrue while on a HAP.

QUESTION 5:

Could you expand on what an “aggressive stance” means? What does this look like for borrowers? Is it more expanded eligibility criteria? A longer time spent in HAP?

Borrowers are now eligible for a HAP even if they are not current on their loan. Previously, borrowers could only enroll in a HAP once they brought their loan nearly current. That means that borrowers who found themselves delinquent often had to pay significant payments just to become eligible for a HAP. Now, SBA has made it simpler to begin repayment on a HAP.

SBA has conducted multiple rounds of phone calls and emails to each eligible Borrower to attempt to bring them into a HAP. This targeted outreach campaign has resulted in more than 138,000 new HAP enrollments as of May 22, 2024.

You mentioned at the hearing that SBA is trying to bring borrowers into hardship accommodation even if the borrower is unable to bring their account current. I also understand that the eligibility criteria for HAP changed in February and that borrowers were no longer required to bring their accounts current in order to qualify. We have heard of cases where borrowers were denied HAP before February but were charged off to Treasury before they could reapply for it after the criteria was expanded.

QUESTION 6:

Is there a path forward for these borrowers who are trying to make payments to bring their loans back to regular SBA servicing?

Borrowers are now eligible for a HAP even if they are not current on their loan. Previously, borrowers could only enroll in a HAP once they brought their loan nearly current. That means that borrowers who found themselves delinquent often had to pay significant payments just to become eligible for a HAP. Now, SBA has made it simpler to begin repayment on a HAP.

Borrowers who were referred to Treasury prior to this expansion in HAP eligibility are still eligible to enroll in HAP. Borrowers should reach out to the COVID-19 EIDL Servicing Center (CESC) at CESC@sba.gov or 833-853-5638.

You stated at the hearing that although SBA is pursuing collections on COVID-19 EIDLs, you are also “making sure that we can continue to work with these businesses to allow them to come back into servicing with the SBA and maintain payments in a way that is responsible to the taxpayer, but also allows them to continue to be in existence.”

QUESTION 7:

Is SBA bringing charged off loans back from Treasury and into regular servicing?

When borrowers have already established a repayment plan, including a repayment plan with Treasury, SBA has moved the loan back into regular SBA servicing and SBA is conducting outreach to all borrowers in this scenario to ensure they have the strongest repayment plan.

Borrowers who have not yet established repayment plans are eligible to enroll in HAP for a period while their loans are also at Treasury. Borrowers should reach out to the COVID-19 EIDL Servicing Center (CESC) at CESC@sba.gov or 833-853-5638.

I know of several borrowers who would be extremely happy to have their loan brought back to SBA for regular servicing.

QUESTION 8:

How should they go about the process of getting their loan brought back? Who can they contact for assistance?

Borrowers at Treasury should contact CESC@sba.gov for assistance to understand their options.

If borrowers wish to speak with Treasury officials, they may contact the Treasury Department at 1-888-826-3127 for Cross Servicing or 1-800-736-6048 for Offset.

You spoke a bit at the hearing about what happens to COVID-19 EIDLs once they are charged off to Treasury, and this issue of mass charge offs is clearly a multi-agency issue.

QUESTION 9:

How is SBA coordinating with Treasury to handle these charge offs?

SBA has worked with Treasury on charge-offs since 1996 when Congress passed the Debt Collection Improvement Act. The two agencies work together to maximize collections on delinquent debt and we are currently working collaboratively to help all borrowers enter repayment.

QUESTION 10:

Has there been any discussion with Treasury on how to ease the burden on businesses who have had their loans charged off?

SBA is working with Treasury to maximize collections on COVID-19 EIDLs and other delinquent SBA debt. If borrowers have already established a repayment plan, including a

repayment plan with Treasury, SBA has moved the loan back into regular SBA servicing and SBA is conducting outreach to all borrowers in this scenario to ensure they have the strongest repayment plan.

As stated above: borrowers who have not yet established repayment plans are eligible to enroll in HAP for a period while their loans are also at Treasury. Borrowers should reach out to the COVID-19 EIDL Servicing Center (CESC) at CESC@sba.gov or 833-853-5638.

We have heard cases where representatives at the EIDL customer service center did not have up-to-date information on eligibility requirements for HAP after they were changed in February or they were not responsive in answering borrowers' questions concerning their HAP applications or payment schedules.

QUESTION 11:

What measures is SBA taking to improve these issues?

SBA is working with Treasury on potential expanded parameters for recall, including instances where Borrowers will commit to a repayment plan.

As of 4/30/24, COVID-19 EIDL outreach:

- Phone Calls/Auto-dialers: 93,524,760
- Emails: 7,055,850
- USPS Letters: 1,699,628
- Delinquency (Automated Messaging)
- Letters via portal (includes 20, 40, 60, 75 and 90 day delinquency letters)
- Generated electronically: 11,324,113
- Generated for mail: 1,919,518

As of 4/30/24, SBA outreach to the PPP borrowers since Feb. 14, 2024, totals 1,395,511 phone calls/auto-dialers. This is in addition to the PPP lender outreach to the PPP borrowers.

QUESTION 12:

How are representatives at the EIDL customer service center trained? How can SBA ensure that their employees are being updated and have the information and tools they need to support borrowers?

SBA conducts broad and intense training for all customer service center employees upon hiring. The Agency further supplements with continuous training requirements. The training is summarized below:

Week 1 – New employees are trained on the expectations of the job and the basic tools and resources to meet the expectations. This includes training on: (a) the Customer Service Center (CSC) including the mission, goals and role of headquarters; and, (b) the COVID-19 loan program overview including SBA's role in disaster assistance, the various COVID-19 loan programs, the COVID-19 EIDL repayment options, the COVID-19 EIDL Servicing Center (CESC), the calculation of simple interest for these loans, and the determination of loan status.

The employee is trained on locating and using the tools and resources for the position including Teams, Script, Newsletters, and SBA.gov Website.

The access and features of the Capital Access Financial System are covered in detail. This includes Account/System access for MySBA Loan Portal (Overview, Enrollment, Portal Features and Options, Agent View and Customer View, Hardship Accommodation Program (HAP), Post Servicing, and CLCS); Obtaining and Providing Information; Identity Verification Standards; Notes to File; Assisting borrowers with navigation in their portal; and Test Your Knowledge Activities.

The employee is trained on STARS account access and obtaining Information, and the Genesys Phone System (Login and Screens, Opening/Closing Calls, Language Line, and Account Access).

Full Customer Service training is provided, which includes CSC Quality Standards, Calming Upset Customers, and Crisis Call Procedure - Resources and Checklist).

The first week of training includes meeting with the Supervisor, teaching the Performance standards and metrics, and discussing the required Online Training (Cyber Security Awareness Training, Telework Training, and all other assigned training in The Talent Management Center). Throughout the week there are Test Your Knowledge Quizzes and listening to recorded calls.

Week 2– The training is focused on preparing to take calls and taking calls with assistance and active monitoring. This includes Desktop Set Up, Call Demonstration, Practice with Recorded Calls, Mock Call Activity (Practice with varied call center questions), and a Q&A Session to Debrief. The Agent then takes calls with assistance and monitoring. There are documented milestones, quality assurance monitoring and lead monitoring.

Week 3 & Beyond – Employees are subject to Regular Call Monitoring and receive coaching as needed, as well as review of performance expectations. The employee receives Program Updates including Newsletters, Interim Guidance, and Refresher Training Courses. The employee also receives additional skill training and monitoring.

Funding Circle and Small Business Lending Company Licenses

Recently, SBA issued three new Small Business Lending Company (SBLC) licenses, including one to Funding Circle US. On March 7, 2024, the CEO of Funding Circle said that the company is “open to selling off its US business ...” Following the announcement, SBA gave final approval to grant Funding Circle an SBLC license.

QUESTION 13:

Why did SBA move forward with the decision to provide Funding Circle US with an SBLC license after learning that the company was likely to be sold?

Change of ownership transactions are common. Due to the frequency, SBA has long-standing policies, procedures, and internal controls that are instrumental in ensuring that the transaction presents an acceptable risk to SBA. In the past, SBA has withheld its approval because the transaction presented an unacceptable risk to SBA. SBA will continue to determine the suitability of any transaction to acquire a Small Business Lending Company and/or the license.

Funding Circle’s US operations and their newly created Funding Circle SBA Lending—just like the other new SBLCs—were selected from a competitive field of applicants because of their demonstrated ability to successfully meet SBA lending standards and requirements, lend to credit-worthy small businesses, and fill market gaps in SBA lending.

Effective June 24, 2024, Funding Circle voluntarily surrendered its SBLC license.

QUESTION 14:

Did Funding Circle or Funding Circle US notify SBA about the potential sale?

Neither entity notified SBA of the potential sale. SBA became aware of the situation during the public earnings call and reached out to Funding Circle for a discussion soon thereafter. Funding Circle promptly responded to SBA’s inquiry.

QUESTION 15:

Can you please describe SBA’s role when an SBLC license is sold to another entity?

Pursuant to 13 CFR 120.468(c) an applicant (an entity seeking to obtain ownership or control of an SBLC license) must submit a Lender Assessment Plan (LAP) and a new application in accordance with 13 CFR 120.466 to SBA’s Office of Financial Assistance. Instructions for preparing the LAP are detailed in SBA Form 2498 (SBA Supervised Lender Assessment Plan). SBA does not, as a matter of practice, perform reviews of multiple potential buyers during this process. It is the responsibility of the SBLC licensee to vet candidates relative to SBA Supervised Lender requirements and to reach some type of non-binding letter of intent with a potential transferee prior to initiating the change of ownership process.

An applicant that receives SBA written notification that it may proceed to the final review must then submit a complete application to SBA within 90 calendar days. The application

requirements for SBA Supervised Lenders are set forth in official SBA policy and procedures and described in SBA Form 2499 (SBA Supervised Lender Application). SBA may, in its sole discretion, approve or deny any SBA Supervised Lender application. If an SBA Supervised Lender application is denied by SBA or if a complete application is not timely submitted, the applicant may not submit a new Lender Assessment Plan and restart the application process until 12 months from the date of denial or the date a complete application was due to SBA, as applicable.

SBA will evaluate an applicant based on information from the LAP, an interview of the management team, the application, background investigations, public records searches, and other due diligence conducted by SBA or other Federal or state agencies in accordance with 13 CFR 120.467. SBA's evaluation of the application considers factors such as: management's professional qualifications and commercial lending experience; historical performance of loan originations attributable to the management team; the applicant's business plan, corporate structure, and capitalization, and both historic and projected financial performance; and any history at the corporate or individual level of material noncompliance with SBA Loan Program Requirements. SBA reserves the right to consider other factors beyond those named above as part of the evaluation process.

Notably, this is not relevant to the recent Funding Circle US sale, as effective June 24, 2024, Funding Circle voluntarily surrendered its SBLC license.

QUESTION 16:

The agency has indicated that Funding Circle's US operation is "fully capitalized." How much capital does Funding Circle US have on hand? What is the number and dollar amount of loans Funding Circle has the capacity to originate through the end of calendar year 2024?

The former SBLC met the \$5,000,000 minimum required by 13 CFR § 120.471.

Effective June 24, 2024, Funding Circle voluntarily surrendered its SBLC license, so Funding Circle will not originate SBA loans as an SBLC.

QUESTION 17:

Has the agency determined whether or not Funding Circle will be allowed to participate in SBA's Preferred Lending Program?

Funding Circle, like all SBA lenders, would have been eligible to participate in the Preferred Lending Program upon meeting all program requirements and receiving approval from SBA. However, effective June 24, 2024, Funding Circle voluntarily surrendered its SBLC license.

Front-End Review for 7(a) Loans

The committee has heard numerous concerns about the delays in approving loans under SBA's new front-end fraud check process. While I applaud the agency's efforts to combat fraud, I am concerned that the new process has caused confusion and has hindered small businesses' ability to access capital.

QUESTION 18:

Can you please detail the efforts the agency has undertaken to improve the system and minimize the delays caused when a hold code is placed on a loan application?

Fraud threats to the financial industry have grown in scale and sophistication—this is especially true for fraud threats against the SBA since the heightened awareness of the Agency's programs from pandemic programs. Accordingly, SBA introduced the first-ever, pre-origination Agency fraud check for all loan programs in August 2023 through the Risk Mitigation Framework.

Since launching last August, SBA has already dramatically improved the user experience. For example, SBA added a pre-check that allows SBA lenders to run potential loans through the Risk Mitigation Framework in advance of submission to identify any potential concerns and address them in advance. For loans without any risk flags, the average days to approval is 1.2. Loans that have been flagged for additional follow-up can progress on average in 5.2 days once their issues are addressed. User safety and security is this Administration's priority, and ensuring that borrowers do not use our loans to commit fraud is paramount.

Please see attached for additional information on the Risk Mitigation Framework.

QUESTION 19:

Can you please provide an update on the agency's efforts to work with lenders to address their concerns with the system, including efforts to improve customer service so that questions are answered in a timely manner?

Processing centers have a robust communication strategy with lenders that utilizes email, conferences, and in-person meetings to keep them informed on how to best resolve issues and who to contact.

504 Debt Refinancing

Last year SBA finalized a rule on 504 Debt Refinancing, as required by the Economic Aid Act of 2020. Unfortunately, due to some unintentional drafting errors in the final rule, SBA

had to walk back some important policy changes included in its Standard Operating Procedure and Policy Notice that would have expanded the utilization of the 504 program by small businesses. SBA committed last year to addressing this issue expediently.

QUESTION 20:

Can you provide a detailed timeline for when SBA will issue an updated rule that addresses the unintended drafting errors?

SBA is updating regulations to expand 504 refinance opportunities and to resolve the minor omission from the previous rulemaking. SBA expects this rule to be published this fiscal year.

QUESTION 21:

If there is a continued delay in finalizing the rule, can you please provide an explanation for why the delay is occurring?

There is no delay—SBA is updating regulations to expand 504 refinance opportunities. SBA expects the rule to be published this fiscal year.

Since October, 2023, SBA has been conducting training on the debt refinancing updates at lender conferences, through the 504 Connect call in December 2023, through webinars and attending lender conferences. We have conducted special outreach through the National CPAs association and the African American CPA association. We have solicited feedback from CDCs and trade organizations on the rule and conducted multiple round tables with third party lenders.

QUESTION 22:

Has SBA seen an increase in demand for refinancing as floating rate loans like 7(a) have seen borrowers' rates reset to higher levels?

The demand for the 504 loan program has returned to pre-COVID-19 levels following a temporary increase in 504 loan financing. While we continue to see increased demand for 504 refinancing without expansion and continued interest in the refinancing with expansion component of the regular 504 program, currently it appears that the interest rate environment has paused demand, as small businesses await potential interest rate cuts in the future. SBA expects an uptick in demand for both 504 debt refinancing with expansion and 504 debt refinancing without expansion if and when interest rates begin to decline. However, we have seen demand for both from borrowers who are concerned about variable rate conventional and 7(a) loans.

Direct Lending

The President's Fiscal Year 2025 (FY2025) Budget requests authority from Congress to raise the interest rate permissible on direct loans from one to six percent. As you stated during the hearing, the intent is to allow a direct loan program to pay for itself without relying on an appropriation from Congress. SBA argues that a viable direct loan program will increase small dollar lending in rural and underserved areas and will fill gaps in capital left by the conventional market and the 7(a) program. However, the proposal in the Congressional Budget Justification lacks many details on how such a program would operate.

QUESTION 23:

Can you please provide a framework of how SBA envisions the direct program to operate?

SBA would offer small, 7(a) loans to credit-worthy small businesses who are not able to obtain credit conventionally and do not receive loan offers from SBA lenders. Such a program could focus on the smallest loan category—loans under \$150,000. SBA could draw on technology systems and best practices developed in its direct disaster lending program to ensure applicants experience fair and efficient underwriting, fraud and eligibility screening, and loan servicing.

QUESTION 24:

How will SBA ensure that any direct lending program does not simply compete with private lenders?

By statute, SBA's authority to make direct 7(a) loans only extends to businesses that are not able to obtain an SBA-guaranteed loan. SBA would only offer loans to small businesses who do not receive other offers from SBA lenders. In accordance with the President's FY 2025 Budget Proposal, a direct 7(a) loan program would further enable SBA to address gaps in access to small dollar lending that SBA 7(a) lenders are currently unable to fill.

Microloans

The Microloan program is a successful small dollar lending tool, with a current average loan size of a little more than \$17,000 nationally. Expanding the microloan program, especially in rural areas, is a priority for the committee.

QUESTION 25:

Can you please detail why the agency has proposed to make a 50 percent cut to the subsidy provided to the program?

The Economic Aid Act in 2021 provided a higher authorization level and corresponding appropriation to support \$110M in lending annually through FY 2025. SBA has experienced less demand than the \$110M authorized level. Due to the available Microloan subsidy carryover

balances, the 2025 Budget proposed a reduction in new budget authority in order to utilize the remaining carryover balances. SBA expects that in FY25 estimated subsidy carryover balances plus the \$3 million appropriations request will support the full \$110 million lending authority for the program.

To incentivize lending in rural areas, the Small Business Act provides a bonus technical assistance (TA) grant to an intermediary if at least 25 percent of the intermediary's loan portfolio serves rural areas. For FY2024, the agency only requested \$41 million for microloan TA, but there were enough funds remaining from the pandemic to fully support the bonus technical assistance grants.

QUESTION 26:

With the \$41 million requested for FY2025, is that enough to sustain the amount of bonus TA grants that were approved in the last three fiscal years?

Given the influx of supplemental Microloan TA grants in addition to the amounts provided through annual appropriations, some Microloan Intermediaries have been unable to spend the combined amount of technical assistance funding available to them. The 2025 Budget provides the necessary resources to ensure small business have access to the capital and assistance necessary to start, grow, and expand their businesses.

The wet signature requirement, which requires physical pen and ink signatures for loans made by intermediaries, has been a barrier to the timely approval of Microloans. The committee understands that e-signatures are allowed for disaster loan applications through the SBA's unified lending platform. Presumably, SBA could use this platform for Microloans in order to modernize and streamline the Microloan approval process.

QUESTION 27:

What barriers have prevented SBA from allowing the Microloan program to utilize the unified lending platform and allow for e-signatures? Is there a reason why the agency has not been able to get rid of the onerous and outdated wet signature requirement?

SBA launched the unified lending platform in 2023 and continues to make more enhancements to the platform via the MySBA Loan Portal. SBA is in the design stage for incorporating the microloan program into the system. The Agency started with the disaster loan program and had to develop the risk mitigation framework for the 7(a) and 504 lending platforms. The agency will build on lessons learned from these initiatives to continue to develop the microlending component of the SBA unified lending platform.

Marketing of SBA's Lending Products

The agency's Office of Communications and Public Liaison (OCPL) executes SBA's press and communication strategy. The administration's request for an increase to the Executive Direction operating budget, which includes funding for OCPL, comes without an explicit intent to support marketing or outreach campaigns about SBA's products to small business owners nationwide.

QUESTION 28:

How does the administration plan to sustain marketing efforts through SBA headquarters, and specifically through OCPL down to the district offices, to increase awareness about existing resources at SBA and especially access to capital programs?

In conversations with small businesses in New Hampshire and around the country, staff have found a general lack of awareness of SBA resource partners and lending programs, even for small business owners who have previously received a Paycheck Protection Program loan or COVID Economic Injury Disaster Loan. The lending process offers multiple opportunities to inform borrowers about SBA's other resources, but the agency has not proactively communicated information about these programs to loan recipients.

Staff note: this comes from a suggestion from Andrew Drummond at your hearing in November

Each week, OCPL attends multiple meetings with the Office of Field Operations where we share information about ongoing external-facing events and priorities. During these meetings, OCPL provides field colleagues with messaging, press release templates, talking points, graphics, social media tiles, and media outreach plans -- as appropriate -- to help the agency market programs to our stakeholders. The Press Office also conducts proactive media outreach to reporters to garner news coverage of the SBA's programs and resources.

OCPL's Marketing Team routinely supplies brochures, fact sheets and other collateral materials to SBA's District Offices. The field offices are also able to receive SBA's Overview Brochure in 11 different languages. More than 11,000 brochures were printed and produced over the past year in languages such as Chinese, Spanish, and Japanese. Additionally, to further broaden our scope SBA is considering creating a Creative Ads team at headquarters to oversee localized campaigns for field offices. The campaigns would be created by headquarters, creative materials and information resources would then be executed by the individual District Offices.

QUESTION 29:

What steps, if any, has the agency taken to ensure that borrowers that receive an SBA business loan are aware of the ability of SBA's resource partners to provide them extra assistance in managing and growing their business?

SBA works in lockstep with its 68 District Offices, more than 900 Small Business Development Centers, more than 250 SCORE Chapters, more than 130 Women's Business Centers, 28 Veterans Business Outreach Centers, and numerous other resource partners at the local, state, and federal levels to inform borrowers about SBA's programs and offer mentoring, counseling, and training to help individuals start, grow, and expand their business. Also, yearly, OCPL prints and distributes more than 76,000 Small Business Resource Guides in English and Spanish to headquarter program offices, and to SBA's district offices for their use at outreach events and to share with their resource partners. A link to the 2024 National Resource guide can be found at the following link: [Read the 2024 National Resource Guide \(English\)](#).

OCPL regularly speaks with reporters and members of the media about how the public can access the SBA's resources and staff often includes this information into press releases and social media content.

QUESTION 30:

To ensure adequate follow-up to borrowers, has SBA considered providing resource partner information to lenders and Certified Development Companies, who could pass that information along to borrowers during the loan closing process?

SBA continues to work with the Resource Partners ecosystem and District Offices to ensure that both lenders and borrowers have information that they need throughout the process of obtaining SBA funding assistance.

Commercial Real Estate and SBA Loan Providers

Inflation and declining demand for commercial real estate—a 16.9 percent national vacancy rate, the highest since 1979—has devalued property and dropped 44.6 percent of these loans into negative equity. In the next three years, \$2.2 trillion in commercial real estate loans are due. Fitch Ratings predicts loan defaults will hit 9.9 percent in 2025. Many of the nation's small regional banks have the highest exposure to any downturn in the commercial real estate market, as they account for 80 percent of the total loans US banks have made to commercial real estate firms. A vast majority of SBA's lenders are small and regional banks. This raises concerns about the effect this will have on SBA's lending portfolio.

QUESTION 31:

Has the agency conducted an analysis of how many of its lenders may be affected by a downturn in the commercial estate market? Has it performed an analysis of any effect it would have on SBA's business loan program portfolio?

SBA monitors and analyzes the portfolio and individual lending participants for geographic concentrations and industries that are routinely associated with commercial real estate, such as the Accommodation Industry.

Due to use of proceeds restrictions and occupancy requirements, SBA analysis of any market affects is focused on borrower viability with each loan individually scored to assess the probability of default within the next 12 months with those loan level results aggregated to the lender and portfolio levels

QUESTION 32:

What is the agency's process for servicing SBA loans made by a bank that has ceased operations?

The discontinued lender's portfolio is normally transferred to another SBA lender, where the successor lender now bears the responsibility to service and liquidate the loans. In rare instances where the portfolio is transferred to SBA, the loans are serviced according to the agency's rules and regulations by its in-house staff.

QUESTION 33:

Has the agency had any communications with other federal agencies in case some SBA lenders fail due to being overleveraged in the commercial real estate market?

SBA regularly communicates with other Federal financial regulators, including the FDIC, OCC, and Federal Reserve Board. Exposure for commercial real estate trends has not been a primary discussion item in recent months.

STEP

QUESTION 34:

What is SBA's budget for the Office of International Trade and for the State Trade Expansion Program (STEP) in particular? For STEP, can you please indicate specific costs for salaries, operating expenses and travel and provide the total number of full-time employees? Also, can you please include any funding used for STEP for technology improvements, including amounts from SBA's working capital fund? Can you please include numbers for the last five fiscal years?

The table below breaks out historical and FY24 estimated costs for the Office of International Trade's main programs, International Trade Promotion and STEP:

Export Programs	FY 20	FY 21	FY 22	FY 23	FY 24
	11,05				
International Trade Promotion	2	11,137	11,114	12,320	14,287

OIT FTE count	29	29	30	30	28
OIT Salary and Benefit Costs	5,527	5,641	6,068	6,115	6,079
OIT Operating Cost	508	539	406	444	514
OIT Travel Costs	28	-	112	160	186
Other Agency Support/Indirect Cost	4,989	4,957	4,528	5,601	7,508
	20,65				
STEP Program	3	17,184	25,760	22,474	24,523
OIT FTE count	4	4	3	4	4
OIT Salary and Benefit Costs	741	522	370	513	680
	19,00				
STEP Grants	0	15,958	24,321	19,993	20,182
OIT Operating Cost	79	68	60	356	490
OIT Travel Costs	4	-	11	11	10
Other Agency Support/Indirect Cost	829	636	998	1,601	3,161

There were no major technology improvements made for the STEP, and no IT WCF resources have been utilized for STEP.

FY24 column represents estimates only based on data developed for FY 24 Annualized CR within the FY 25 Congressional Budget Justification.

SBDC Cybersecurity Staffing

Last Congress, I worked with Senator Rubio to pass the Small Business Cyber Training Act to ensure each Small Business Development Center (SBDC) had certified cybersecurity counselors to help businesses with their cybersecurity needs. The bill directed SBA to reimburse SBDCs for the costs of obtaining this certification, subject to a maximum of \$350,000 per year. We have heard, however, that SBDCs are currently paying for these costs and do not know if they will be reimbursed at any point.

QUESTION 35:

Can you please clarify whether and when SBA plans to reimburse SBDCs for the costs of certification?

SBA developed a few mechanisms for SBDCs to obtain the required training and provide the proof of utilization and proficiency in tools related to cyber strategies for small businesses. 1) An SBDC could attend a cyber strategy conference workshop, including, but not limited to, the ASBDC annual Conference and 2) Demonstrate proficiency in SBA, ASBDC, and/or SBDCNet resources and tools related to cyber strategy for small businesses which includes, but is not

limited to, participation in the ASBDC North Star Small Business Data/Cyber Protection Awareness Program and 3) Provide evidence of inclusion of cyber security strategy, resiliency, and planning for small businesses in the SBDC Disaster Operations Plan.

Alternatively, we have also allowed SBDCs to utilize their existing grant funds to obtain an industry certification that focused on small businesses, as some SBDCs may opt to pay for this training.

Questions from:

Ranking Member Ernst

Direct Lending

The President's Budget did not contain any appropriations request or language intended to fund the creation of a 7(a) direct lending program.

QUESTION 1:

How did you intend to fund the establishment of a 7(a) direct loan program?

The President's Budget contains a legislative proposal related to direct general business loans. The proposal would amend an interest rate limitation on direct general business lending that currently exists in the Small Business Act. This change would empower the SBA to carry out direct general business lending as outlined in the Small Business Act.

QUESTION 2:

If Congress does not enact the requested language that allows SBA to charge higher rates on direct loans and does not fund an appropriation designated to 7(a) direct lending, will SBA still try to establish a 7(a) direct loan program?

Administrator Guzman testified that SBA is interested in starting a direct loan program if the agency is given the tools to do so. We have requested support from Congress.

QUESTION 3:

If Congress does not pass the requested interest rate language, how would SBA prevent any 7(a) direct loan program from violating the Antideficiency Act?

Administrator Guzman testified that SBA would maintain a zero-subsidy impact. SBA will not launch a direct 7(a) loan program without the ability to charge the appropriate interest rate and fees necessary to operate the program at no cost.

In the hearing you told me SBA would continue to utilize its direct lending authority only as part of the disaster lending programs under Section 7(b).

QUESTION 4:

Can you reiterate your commitment to use SBA's direct lending authority to only underwrite disaster loans under Section 7(b)?

SBA will continue to make direct disaster loans to homeowners, renters, businesses and nonprofits following declared disaster events. SBA currently has authority to make direct 7(a) loans; however, we have no immediate plans to do so and have requested authority to charge the interest rate necessary to have a zero-subsidy impact program.

SBA's Office of Credit Risk Management (OCRM)

Last year, during the most substantial SBA lending programs rule change in decades, we heard worrying reports that SBA's primary regulator of lending program participants, OCRM, had staff in only 29 of its 46 full time positions, a 38 percent vacancy rate. Moreover, we were told three of the four positions tasked with oversight of SBLCs were vacant despite the radical changes being made to the SBLC program under the rule changes.

In January of this year, your staff mentioned that OCRM had made progress in onboarding new OCRM staff in November and December of 2023, which I requested details on. Despite that request and others like it over the last year, SBA has yet to provide this committee any details on OCRM's headcount, what positions remain vacant, and OCRM's capacity to conduct sufficient oversight of new SBLC entrants to SBA's loan programs.

QUESTION 5:

What is the current headcount of OCRM?

QUESTION 6:

What are the headcounts and vacancies per division?

QUESTION 7:

Is OCRM fully staffed when it comes to FTE's tasked with oversight of the SBLC program?

QUESTION 8:

You noted during the hearing that OCRM has 32 staff on board. Can you detail how many staff have been hired since October of last year, what positions they were hired for, and whether OCRM has seen in the last year any departures or retirements in positions tasked with oversight of the SBLC program?

QUESTION 9:

Can you please share with me and my staff an updated organizational chart for the office that denotes what positions remain vacant?

Answers to Questions 5-9:

Please refer to the organizational chart emailed to your staff.

PPP Fraud Request by Office of Credit Risk Management

Last year, SBA's Office of Credit Risk Management (OCRM) investigated certain PPP lenders on whether they were aware of any suspected fraud or illicit activity within the lender's PPP loan portfolio.

QUESTION 10:

What did OCRM find out from that request?

QUESTION 11:

If OCRM has found any evidence of fraud or illicit activity, was there any difference in terms of prevalence between traditional lenders and non-depository lenders?

QUESTION 12:

If that request was as part of a larger investigation, has OCRM completed that investigation? If not, when can we expect it to be complete?

Answers to Questions 10-12:

OCRM does not have the ability or authority to conduct investigations; therefore, no investigation by OCRM is in process.

Per SOP 50 56, SBA Lenders, Borrowers, and others must notify both D/OCRM and the SBA Office of Inspector General (OIG) of any information that indicates fraud or illegal activity may have occurred in connection with a 7(a) or 504 loan. OCRM conducted outreach efforts to lending participants to ensure their awareness of the requirements.

OCRM does not investigate for evidence of fraud or illicit activity and has a primary goal of ensuring that any potential instances are referred to SBA's Office of Inspector General (OIG) for review. The OIG may be able to provide information.

COVID-19 EIDL and PPP Loan Programs

After nearly a year of oversight, the SBA finally answered my calls to send billions of taxpayer dollars in delinquent COVID loans to Treasury for collections.

QUESTION 13:

Since reversing the decision to forgo collections on COVID EIDL and PPP loans under \$100,000, what is the total dollar amount of loans and number of loans that SBA has since referred to Treasury as a result of SBA's reversal of its policy decision to end collections on loans under \$100,000?

SBA has always collected on every PPP and COVID-EIDL loan. We assume this question refers to SBA's previous process, which paused Treasury referrals for PPPs and COVID-19 EIDLs \$100,000 or less.

As of April 30, 2024, SBA has referred 909,449 loans to Treasury.

QUESTION 14:

How much funds have been recovered so far as a result of SBA's reversal of its policy decision to end collections on loans under \$100,000?

SBA has always collected on every PPP and COVID-EIDL loan. We assume this question refers to SBA's previous process, which paused Treasury referrals for PPPs and COVID-19 EIDLs \$100,000 or less.

There is no metric to decide which collections occurred and which Borrowers decided to make a payment solely because of the impetus of Treasury referrals of loans \$100,000 and below. SBA, however, can provide collection data on the portfolio in full. As of May 22, 2024, SBA has a total of 201,885 COVID-19 EIDL Hardship Accommodation Plan enrollments, which is an overall total increase of 138,700 enrollments since SBA's additional outreach began in early 2024. These HAP enrollments represent borrowers who were in default and/or would have likely gone into default without the HAP. The ultimate amount of collections resulting from the expansion of HAP is not yet known.

SBA also helped over 33,000 PPP borrowers return to compliance through PPP forgiveness or by paying their PPP loan in full since SBA began the outreach campaign.

QUESTION 15:

How many borrowers for loans \$100,000 or less have started making payments on their loans since the SBA's reversal of its policy decision to end collections on the loans?

SBA has always collected on every PPP and COVID-EIDL loan. We assume this question refers to SBA's previous process, which paused Treasury referrals for PPPs and COVID-19 EIDLs \$100,000 or less.

Borrowers returning to compliance on their loans has likely been the result of SBA's extensive outreach and additional Hardship Accommodation Plan (HAP) offerings. As of May 22, 2024, SBA has a total of 201,885 COVID-19 EIDL Hardship Accommodation Plan enrollments, which is an overall total increase of 138,700 enrollments since SBA's additional outreach began in early 2024.

QUESTION 16:

What dollar amount of payments have borrowers made on loans with previously forgone collections since the SBA's reversal of its policy decision to end collections on the loans?

SBA has always collected on every PPP and COVID-EIDL loan. We assume this question refers to SBA's previous process, which paused Treasury referrals for PPPs and COVID-19 EIDLs \$100,000 or less.

Since the expanded HAP enrollment process opened in February 2024, the SBA has received borrower collections totaling \$49,839,853 on loans that have enrolled in HAP. Note that this includes borrowers who were on HAP prior to February 2024.

COVID-19 EIDL Budget Request

As a result of the SBA's poor decision making, SBA is now asking for the taxpayer to foot an additional bill of over \$400 million, in Fiscal Year 2025 alone. This includes \$348.7 million in Disaster Loans Program funding and \$70 million in salaries & expenses for administrative expenses and oversight of the agency's COVID-19 loan and grant portfolio, and is on top of the billions of dollars in loan subsidies SBA has received for the program.

QUESTION 17:

In 2021, when you decided to increase the maximum COVID-19 EIDL loan size from \$150,000 to \$2 million, why did you not consider the mounting losses in SBA's COVID-19 EIDL program, SBA's underperformance with collections, and the high servicing costs associated with these loans?

The COVID-19 EIDL program always had a statutory limit up to \$2 million. For more than 10 months while small businesses were struggling to survive the pandemic, the previous Administration made a policy decision to limit the COVID-19 EIDL program to 6 months of economic injury up to a maximum of \$150k. Within days of being sworn into office, Administrator Guzman announced that the SBA would remove the arbitrary caps on the COVID-19 EIDL program and increased loan limits to 2 years of economic injury up to a maximum of

\$500k, which was later increased to \$2 million. In December 2020, prior to SBA increasing the COVID-19 EIDL loan limit, Congress rescinded the restrictions placed on SBA in the CARES Act to accept self-certification and prohibiting the agency from obtaining IRS tax records from the applicant. As the OIG has confirmed in testimony, the overwhelming amount of fraud in the COVID-19 EIDL program occurred in the initial months of the program during the previous Administration, which was before SBA increased loans over \$150k.

Payment Integrity Information Act

The Payment Integrity Information Act of 2019 includes reporting requirements for the heads of executive agencies when they are non-compliant for 3 consecutive years. The SBA OIG has informed my staff that SBA has exceeded 3 years of noncompliance for PPP and COVID-19 EIDL and is currently in the 4th consecutive year of noncompliance.

QUESTION 18:

Why have you not reported the required information to the authorizing and appropriations committees of Congress and the Comptroller General of the United States as required by 31 U.S.C. 3353?

These pandemic programs have ended. The Paycheck Protection Program (PPP) concluded in June 2021 and the COVID Economic Injury Disaster Loan (COVID-19 EIDL) closed in May 2022.

The Payment Integrity Implementation Act of 2019 (PIIA) requires that SBA report within 30 days, to the authorizing and appropriations committees of Congress, as well as to OMB and the Comptroller General the following:

- (1) a description of the actions that the agency is undertaking to bring the program into compliance, and
- (2) a timeline for when the program will achieve compliance.

SBAs PIIA audit was completed on May 15, 2023. In June 2023, SBA submitted the required letters to the following Senators and Members of Congress:

- Chairman Gary Peters and Ranking Member Rand Paul - Committee on Homeland Security and Governmental Affairs
- Chairman James Comer and Ranking Member Jamie Raskin - Committee on Oversight and Accountability

Copies were sent to:

- The Honorable Gene Dodaro, U.S. Comptroller General, Government Accountability Office
- Ms. Deidre Harrison, Controller (Acting), Office of Management and Budget

- Ms. Heather Pajak, Accountability, Performance and Reporting Branch, Office of Management and Budget

QUESTION 19:

Can you please provide all available documentation on SBA's loan losses, estimated allowances for credit losses, and servicing costs for the COVID-19 EIDL program? Can you please include internal SBA documentation and correspondence as well as memos and other documentation provided by external entities such as SBA hired consultants?

SBA Office of Congressional and Legislative Affairs is available to arrange a briefing with your staff.

7(a) Guarantee Eligibility

Last year, SBA began requiring all guaranteed lenders to submit loan applications to a newly established eligibility check system before the lender could make a 7(a) loan. They did this even for lenders SBA had previously provided delegated authority to underwrite loans. Reports show that there continue to be delays in approval of loans due to these eligibility checks, which can range from less than a day to several.

QUESTION 20:

What is SBA's target timeframe for completing eligibility checks of loans?

SBA's goal is to complete fraud and eligibility checks of loan applications submitted by 4 pm (EST) by the next morning at 9 am (EST).

QUESTION 21:

From the moment a loan is submitted for verification, what is the average and median length of time for these eligibility checks to be completed?

If the loan application is submitted before 4 pm (EST), the lender receives a response by 9 am (EST) the following morning.

Question on SBA's Proposed Changes to 7(a) and 504 Lending Programs

On March 25, 2024, SBA announced that it was launching a lender campaign to discuss childcare-specific reforms that could be made to SBA programs, including the expansion of

eligibility to nonprofit child care providers under the 7(a) and 504 loan programs. This reflects the intent of legislation Senator Rosen (D-NV) and I have introduced.

QUESTION 22:

Does SBA plan to expand 7(a) and 504 loan program eligibility to nonprofit child care providers?

The SBA is exploring ways to match the intentions of the *Small Business Child Care Investment Act*, introduced by Ranking Member Ernst and Senator Rosen. While the governing statute does not explicitly prohibit lending to nonprofit childcare providers, the language in Sec 3(a) of the Small Business Act renders nonprofits ineligible (with notable exceptions, including the microloan program, which permits lending to nonprofits, and specifically childcare-related nonprofits).

Congress may build upon statutory authority provided to the microloan program by engaging microloan intermediaries and/or other aligned stakeholders to commit to matching microloans to childcare or bundling microloans with other financing available through the intermediaries (many of which are CDFIs) to childcare borrowers.

QUESTION 23:

If so, how does SBA plan to accomplish this expansion?

We are contemplating clarifying and communicating to both lenders and intermediaries, as well as nonprofit childcare providers, the available options that exist under SBA's microloan program.

QUESTION 24:

If SBA plans to expand eligibility, what is the target date for implementing the new standards?

The SBA is exploring ways to meet the intent of the *Small Business Child Care Investment Act*, introduced by Ranking Member Ernst and Senator Rosen, and has no target dates. We welcome dialogue with the Committee on the ideas presented in the previous responses.

QUESTION 25:

Does SBA also intend to make religious-affiliated childcare nonprofits eligible for these loans?

The SBA is currently exploring expanding eligibility, including to religious-affiliated childcare non-profits. We welcome dialogue with the Committee on the ideas presented in the previous responses.

IT Working Capital Fund

SBA has consistently transferred funds from the Salaries and Expenses appropriation into its IT Working Capital Fund while underutilizing the existing fund balance. As a result, in the most recent budget request it appears SBA has accumulated over \$22 million since FY20, despite the clear need for further investment in IT infrastructure for offices within the agency.

QUESTION 26:

Why is SBA transferring these funds from Salaries and Expenses into the IT Fund if it is not fully utilizing the existing balances in that fund? Can you please provide me and my staff a detailed breakdown by fiscal year of what IT projects at SBA the IT Fund has been used to support and the dollar amount used to support each project?

SBA has consistently transferred funds from the Salaries and Expenses appropriation into its IT Working Capital Fund while underutilizing the existing fund balance. As a result, in the most recent budget request it appears SBA has accumulated over \$22 million since FY20, despite the clear need for further investment in IT infrastructure for offices within the agency.

Below: an overview of IT WCF historical spending and corresponding projects.

ITWCF Projects	FY 2020	FY 2021	FY 2022	FY 2023
Login.gov	\$645,000	\$499,975	\$0	\$0
ServiceNow	\$0	\$1,408,220	\$363,307	\$0
SBIR.gov	\$0	\$500,000	\$0	\$0
Asset Management	\$0	\$260,365	\$0	\$0
Risk & Efficiency	\$0	\$2,498,451	\$0	\$0
Info Sec Tools	\$0	\$50,838	\$0	\$0
Insight CRM	\$1,081,503	\$360,937	\$0	\$0
SBA.gov Modernization	\$328,797	\$0	\$0	\$0

EDMIS-NG	\$1,000,000	\$631,961	\$0	\$0
Certification Modernization	\$1,355,038	\$827,405	\$0	\$6,494,853
SBIC.gov	\$0	\$0	\$1,036,872	\$0
Total Obligations	\$4,410,338	\$7,038,152	\$1,400,179	\$6,494,853

SBA's Calculation on First Time SBIR Awardees

Administrator Guzman, according to the Small Business Administration's Congressional Budget Justification, 46 percent of all SBIR awardees went to first time applicants.

QUESTION 27:

How did SBA calculate this figure and what data sources were involved?

The SBA's Congressional Budget Justification (CBJ) presents two distinct first-time metrics for SBIR/STTR programs. One metric is the percentage of first-time applications, meaning the percentage of companies submitting their first SBIR or STTR Phase I application during the respective fiscal year. This metric is calculated by taking the number of firms submitting a Phase I application for the first time (no prior SBIR.gov record of the firm applying) and dividing that number by the total number of firms applying during that fiscal year.

The SBA also presents a first-time awardee metric. This metric measures the percentage of firms winning their first Phase I award in the respective fiscal year, divided by the total number of firms winning a Phase I award during that fiscal year. In calculating these metrics, SBA utilizes SBIR and STTR firm and award data reported by the 11 participating agencies through SBIR.gov. Please note that a first-time awardee does not necessarily equate to a first-time applicant, as the firm may have applied previously. SBA does not provide any first-time applicant win-rate metrics within the CBJ.

SBIR Awardee Transition

Administrator Guzman, according to an analysis of Department of Defense SBIR awards, only six percent of all SBIR companies received more funding in phase three than in phase one and two funding.

QUESTION 28:

How does the Small Business Administration plan to address this gap in funding between the first two phases and the third phase of funding?

The analysis reflects a conservative assessment of Department of Defense (DOD) Phase III outcomes, as the data sources are limited solely to government-designated Phase III awards without consideration or inclusion of any commercial market outcomes, or other sources of government funding such as cooperative research and development agreements, or commercialization resulting from non-federal DOD sources. Given this conservative assessment, when measuring against the study's broadest measure of DOD-only commercialization indicates 36% of SBIR/STTR companies generated more in DOD commercialization funding than the funding the company received through Phase I and Phase II SBIR/STTR awards. As evidenced by agency commercialization impact studies, a broader capturing of commercialization (e.g., commercial market outcomes), would indicate greater return on investment than this conservative analysis.

Despite the report's findings, the SBA is committed to encouraging an increase in the number and value of government-designated SBIR/STTR Phase III awards. The SBA has worked with multiple federal agencies, including the DOD, on an amendment to the Federal Acquisition Regulation (FAR) (case number 2020-010), which would establish the SBIR/STTR Phase III statutory requirements within FAR Part 6 (Competition Requirements). This modification to the FAR will explicitly express that SBIR and STTR Phase III sole-source awards are authorized by statute (15 U.S.C. 638 (r)). This modification is critically important to enhancing the number and sources of federally funded Phase III awards.

Over the years, SBA has continuously heard from small businesses about challenges they've faced with contracting officers around SBIR and STTR Phase III awards. A consistent theme, from small businesses, and SBA's various discussions with acquisition professionals has been the disconnect between the FAR, silent on Phase III, and the SBIR and STTR Policy Directive, which outlines the Phase III sole-source rights and other agency Phase III requirements. For acquisition professionals, this has created a barrier to maximizing the number of Phase III awards with small businesses because the authorities to do so are not explicitly codified within the FAR, the acquisition contracting community's governing regulatory guidance. Resolution of this FAR case will clarify Phase III authorities, including the sole-source award provisions, and enable and enhance awareness across the federal acquisition community by removing a significant knowledge and regulatory barrier to making SBIR and STTR Phase III awards.

QUESTION 29:

How does the SBA incentivize companies receiving SBIR funds to commercialize?

Although the SBA is statutorily removed from the topic generation, proposal receipt, evaluation, award, and funding processes, the SBA through the SBIR/STTR Policy Directive requires agencies to evaluate the commercial potential of SBIR and STTR proposals. The SBA also leads the enforcement of the commercialization benchmarks, which remained unenforced for nearly 7

years, but through SBA lead system modifications in close collaboration with our federal agency partners, the required benchmarks were implemented in 2021, and every year since.

Beyond, these policy actions, the SBA has consistently included commercialization as a key pillar of its messaging and engagement around the SBIR and STTR programs. Through SBA's coordinated outreach activity, we have included other federal partners, such as National Science Foundation I-Corps representatives, in both our virtual and in-person outreach to discuss the importance of customer discovery and technology and market fit at the earliest stages. Raising awareness and making connections between innovative entrepreneurs and small businesses to I-Corps enhances downstream commercial success by building in customer discovery processes at the earliest phases, often before receipt of an SBIR or STTR award. SBA has also been supportive of agencies various initiatives to enhance the commercial success of current SBIR and STTR awardees.

Financial Audits of Programs

The Payment Integrity Information Act of 2019 (PIIA) requires you to conduct recovery audits with respect to each program and activity of the executive agency that expends \$1,000,000 or more annually if conducting the audits would be cost effective. In your FY 2023 and FY 2022 Agency Financial Reports, SBA concluded that recovery audit costs would exceed recovery amounts.

QUESTION 30:

Can you explain how your agency reached this conclusion? Can you please provide the Committee with the analysis SBA performed on the anticipated cost effectiveness of conducting recovery audits for each eligible SBA program and activity in FY2023 and FY2022?

In its determination of the benefits of performing a recapture audit, SBA considers the following (as applicable): FTE costs to perform a payment recapture audit, recoverability of identified overpayments based on statutory regulations, recoverability of overpayments based on recipient resources, risk assessment results, recent audits performed and findings identified, prior internal control assessments conducted, etc.

For programs currently reporting improper payment estimates, the improper payment review and results from the testing were leveraged to identify potential payments that could be recovered. SBA pursues recovery activities for improper payments identified during the review and testing.

In lieu of recapture audits, the mechanisms SBA uses to identify and recover overpayments include the following:

- 1) Loan Review and Referral to the Office of the Inspector General

- 2) Hold Codes to review or update hold codes related to issues such as suspected fraud, confirmed fraud, and suspected identity theft
- 3) Referrals to the U.S. Treasury for Cross Servicing or Offset.

QUESTION 31:

Can you please describe and provide documentation on SBA's current practices for recovering funds for SBA programs with improper payments? What options has SBA considered to maximize recovery of funds and efficient use of resources while minimize costs to the extent feasible?

SBA determines the proper course of action for fund recovery on a case-by-case basis, depending on the specific details of the program, the payment, and the reason for the improper payment. For example, resolution of improper payment may include obtaining additional documentation and recapturing the improper payment. The recapture process includes denial of guaranty, collection from the lender and collection from the borrower via several collection tools, including workout agreement, foreclosure of collateral, compromise of debt and referral to Treasury for further collection.

SBA received a disclaimer of opinion on its financial statement audit for the fourth consecutive year. Many of the deficiencies noted by the SBA's financial statement auditor have been outstanding since 2020.

QUESTION 32:

Why has SBA not made greater progress on addressing its longstanding issues with its financial management practices?

Prior to the COVID-19 pandemic, SBA was able to maintain clean audit opinions within our financial statement audit and had annual program delivery levels around \$30 billion. Since 2020, SBA was mandated to stand up new programs quickly, to deliver more than \$1.2 trillion in relief to help small businesses reopen and recover from COVID-19. Some regular controls that typically exist were lifted in order for SBA to provide immediate relief during a global pandemic. Since then, SBA has been adapting processes, strengthening our fraud and risk management approach, and making continued progress on understanding gaps and determining the best approach to address gaps within the current uncertain resource environment. Funding was provided to implement these pandemic relief programs, but consideration was not given on providing a sustainable funding tail for resources to ensure the prudent fraud risk management, oversight and effective close out of these programs to recoup the most for the U.S. taxpayer. The President's Budget describes the resources needed to oversee and close out these programs.

SBA stated in its assessment of the cost effectiveness for recovery audits, factors it considered included that programs were not identified as susceptible to significant improper payments in the last risk assessment. There have been no recent audit findings or reports to suggest the program is susceptible to improper payments, and prior internal control assessments did not identify the program as susceptible to significant improper payments. To the contrary, multiple SBA programs, such as SBA pandemic programs, have been identified as susceptible to significant improper payments by multiple GAO, SBA OIG, independent auditor reports.

QUESTION 33:

Can you please indicate all SBA programs and activities that SBA assessed as not susceptible to significant improper payments and how SBA: (1) determined the programs and activities were not susceptible; and (2) incorporated improper payment susceptibility in its assessment of recovery audit cost effectiveness for each program and activity?

SBA performs qualitative risk assessments on all programs with outlays greater than \$10 million to determine the program's susceptibility for improper payments. The qualitative risk assessments are performed on a 3-year rotational basis, i.e., programs are risk assessed every three years. However, if a program undergoes significant funding or legislative changes, a qualitative risk assessment can be performed sooner than the 3-year rotational cycle.

In FY 2023, SBA performed one qualitative risk assessment over the Congressional Grants programs, and in FY 2022, SBA performed a total of 17 risk assessments (Community Navigator Pilot Program, Microloan Program, OED Resource Partners Training Portal program, Restaurant Revitalization Fund program, SBA Administrative Contracts, SBA Administrative Payroll, SBA Administrative Travel, Service Corps of Retired Executives (SCORE) program, Shuttered Venue Operators Grant program, Small Business Development Center (SBDC), Small Business Investments Companies Advances and Purchases program, State Trade Expansion program, Surety Bond Guarantees, Transition Assistance Entrepreneurship Track (Boots to Business) program, Veterans Outreach program, and Women's Business Ownership Assistance. SBA's qualitative risk assessments incorporate the risk factors identified in OMB Circular A-123, Appendix C (M-21-19) and OMB Memorandum M-21-20, and risk assessment results are factored into our consideration for our determination for recapture efforts.

Your statement that "the SBA continues to drive strong financial management of all its programs, including COVID programs..." is dismissive of and incongruous with the SBA financial statement audit findings. The financial statement auditor issued a disclaimer of opinion due to inadequate processes and controls, as SBA was unable to support a significant amount number of transactions and account balances for the Restaurant Revitalization Fund, the Shuttered Venue Operators Grant program, the Paycheck Protection Program, and the Economic Injury Disaster Loan program.

QUESTION 34:

How do you explain this disconnect?

The pandemic programs have ended. If you would like a briefing on this topic, SBA Office of Congressional and Legislative Affairs would be happy to arrange it.

Notification of Debt to the Treasury Department

SBA's independent financial statement auditor reported that SBA did not comply with provisions of the DCIA that require agencies to notify and refer debt to Treasury that are delinquent by 120 days or more, for purposes of administrative offset. Your own management communicated to the agency's financial statement auditor that over one million COVID-19 EIDL and 16,814 PPP loans were noncompliant with DCIA requirements for the fiscal year ended September 30, 2023.^[1] Despite this, SBA has failed to notify the Secretary of Treasury as required by 31 U.S.C. § 3716(c)(6)(A). Treasury's Fiscal Year 2023 Treasury reporting inaccurately indicates 100% SBA compliance.

QUESTION 35:

Why have you failed to provide the required notification to Treasury?

QUESTION 36:

Will you agree to provide Treasury the required notification for Fiscal Year 2023, as well as in future years if SBA remains noncompliant?

Answers to Questions 35-36:

SBA has and continues to commit to following all applicable laws and regulations. SBA is working closely with the Department of Treasury on DCIA referrals.

Small Business Contracting Scorecard

In the fall, I introduced the ACCESS for Small Businesses Act in an effort to reverse the sharp decline of small businesses in the federal marketplace. Despite the SBA's awareness of this problem, the SBA continues to mislead the American public about the federal government's engagement with small businesses by awarding the federal government with an "A" grade in its

^[1] <https://www.oversight.gov/report/SBA/Independent-Auditors%E2%80%99-Report-SBA%E2%80%99s-Fiscal-Year-2023-Financial-Statements#:~:text=The%20U.S.%20Small%20Business%20Administration,related%20notes%20to%20these%20statements>

Small Business Scorecard even as number of small businesses receiving prime contracts with the federal government continues its multi-year slide.

QUESTION 37:

Do you agree that, by publicly awarding the government an “A” grade, this “positive” message minimizes and deflects from the very serious problem of small business leaving the federal marketplace at rapid pace?

The message of the scorecard is mandated by statute. SBA adheres to the statutory requirements for the procurement scorecards, set forth at 15 USC 644(y). The statute requires that the largest weight on the scorecard go to prime-contract dollars. In prime contracting, the government has far exceeded the statutory goal of 23% of prime-contract dollars being spent with small business (27% in 2021, 26% in 2022). The ‘A’ grade therefore reflects the government’s achievements in prime-contract dollars.

QUESTION 38:

Do you share my view that the federal government does not deserve an “A” grade, given its collective failure in awarding contracts to a growing number of small business vendors?

The scorecard methodology is set forth in statute at 15 USC 644(y), and it puts the largest emphasis on prime-contract dollars.

QUESTION 39:

Do you believe the Scorecard should accurately reflect dollars awarded to small businesses only?

As set forth in 15 USC 644(y), the Scorecard reflects whether the government has awarded dollars through contracts to small businesses. SBA reviews scorecard data prior to its release to ensure that agencies have properly coded their contract dollars.

QUESTION 40:

Alternatively, do you believe the Scorecard should be amended to be as transparent as possible where there may be small business dollars captured by other-than-small businesses?

As required by law, the Scorecard reflects dollars awarded by Federal agencies to small businesses. Small businesses that win contracts are not required to perform the full contract with their own employees. Instead, they are subject—in some but not all circumstances—to subcontracting limits, often referred to as “limitations on subcontracting.” However, small businesses are not required to submit paperwork to document their subcontracting.

Streamlining Certifications for Small Business Contracting

During this hearing and your hearing with the House Committee on Small Business, you made several references to unifying and streamlining SBA's certification programs, following the example led by the Vet Cert program.

QUESTION 41:

Can you clarify if this is in reference to Certify.sba.gov or a separate initiative?

The Unified Certification Platform (UCP) will be a customer experience-driven, unified set-aside certification system that provides excellent customer experience for our small business constituents. The UCP system, accessible via the MySBA portal through single sign-on, will consolidate retrieval of historic data and documents, unify single application to all set-aside programs, and synchronize management of re-certifications. This system will replace five existing, separate systems, one of which is Certify.sba.gov.

QUESTION 42:

It appears SBA may be moving towards a unified MySBA effort, away from Certify. If this is not in reference to Certify.sba.gov but something new like MySBA, can you please explain what it is? Can you please explain how this new initiative differs from, and if it will supplant, Certify.sba.gov?

MySBA will provide small businesses access to multiple SBA loan programs and services through a single user login experience. It is intended to improve the customer experience for small businesses so they can easily manage existing loan accounts, apply for new disaster loans, utilize Lender Match, and access other programs like Veteran Small Business Certification. SBA is conducting customer experience research and plans to continue incorporating more programs to MySBA to enhance the overall customer experience for small businesses.

Please see the response to Question 41.

QUESTION 43:

Can you please detail the level of funding SBA anticipates will be needed to successfully implement this new technology?

SBA has awarded two contracts for the development of the Unified Certification Platform (UCP), currently totaling \$13.2 million.

QUESTION 44:

What is the SBA's plan for Certify.sba.gov, if this new initiative is intended to replace Certify.sba.gov?

Certify.sba.gov as a public website will be decommissioned once the UCP is live.

QUESTION 45:

How much the SBA intends to allocate to the development of this new certification integration initiative?

SBA has awarded two contracts for the development of UCP, totaling \$13.2 million.

QUESTION 46:

Alternatively, if this is in reference to Certify.sba.gov, can you please: 1) Provide the total cost spent on Certify.sba.gov to-date. 2) What new action or updates to Certify.sba.gov are planned by the SBA? 3) How much the SBA intends to allocate for this purpose?

Please see responses to Questions 41-45 above.

Prime Contracting Program

QUESTION 47:

Is the SBA intending to hire additional PCR staff with this increase in the requested program budget for the Prime Contracting Program?

The 2025 Budget does not propose an increase in PCR staffing levels.

QUESTION 48:

Can you please provide more information about these 30 virtual surveillance reviews. What do such reviews entail and what was the outcome of these reviews conducted in FY23?

Surveillance Reviews (SR) are conducted in accordance with Section 15(m) of the Small Business Act, as implemented in the Federal Acquisition Regulation 19.402(c) (5). The purpose of a SR is to:

- Assess the quality of a procurement center's (PC) small business program;
- Evaluate the program's impact on small business; and
- Enable SBA to recommend changes to increase small business participation in the PC's acquisition process.

The outcomes of the FY 2023 SRs are as follows:

Rating/Outcome	Number of PCs
Highly Satisfactory	5
Satisfactory	21
Marginally Satisfactory	4
TOTAL SRs Conducted	30

In FY 2023, SBA conducted 30 SRs, of which five PCs were rated Highly Satisfactory; 21 were rated Satisfactory and four were rated Marginally Satisfactory.

QUESTION 49:

Can you please provide more information on the 150 performance reviews conducted by the SBA evaluating large prime contractors subcontracting compliance in FY23. What was the outcome of such reviews and what SBA staff (i.e. “professional analysts, etc..”) conducted these reviews?

In accordance with 13 CFR 125.3(e), these reviews are conducted by SBA’s Commercial Market Representatives (CMRs). Performance Reviews results are detailed in letters to the contractor evaluating (1) the contractor’s timely subcontracting reporting submission in eSRS.gov, and (2) their goal accomplishment/attainment. In the letter, SBA offers assistance to the contractor in finding tools to locate small business subcontractors.

QUESTION 50:

Were they conducted in collaboration with the procuring agency’s contracting officer or were these independent investigations undertaken by SBA staff?

SBA Surveillance and Performance Reviews are conducted independently by SBA.

QUESTION 51:

Can you please explain the increases in the program budget for the Prime Contracting Program?

The program budget for the Prime Contracting Program includes costs to administer the program, which are direct costs from the operating budget, including contracts; compensation and benefits, Agency-wide costs, such as rent and telecommunications; and indirect costs.

Direct program costs are identified in Table 3 and Table 6 of SBA’s Performance Plan, Evaluation Plan, Budget, and Performance Report ([sba.gov](https://www.sba.gov)). As outlined in Table 3, SBA’s Office of Government Contracting and Business Development has a requested *decrease* in direct operating costs of \$5 Million as IT system supporting the Veterans Certification program is operational and any upfront costs to deploy the system is no longer needed. The program budget

for the Prime Contracting Program includes an inflationary increase for payroll. Indirect Costs are determined from the cost allocation survey that is conducted annually. Indirect costs are arrived at by SBA employees outside of the direct program office responding on the survey that they provided support on specific programs. The FTEs in Office of Field Operations (OFO) are a large contributing factor in costs of a program as they are the front-line contacts with the general public for all SBA programs.

With the COVID programs winding down, the budget year estimates anticipate OFO to be able to focus more on SBA's core programs that mirror pre-pandemic levels.

8(a) Contracting Program

QUESTION 52:

How much of the program budget is attributable to program oversight and measuring program effectiveness?

SBA does not have a separate budget line item for the 8(a) Program. The overall direct operating budget of SBA's Office of Government Contracting and Business Development is used to support 8(a) Program activities, including program oversight and measuring program effectiveness. The Business Opportunity Specialists across the 68 District Offices, along with dedicated headquarters staff and leadership, support program operations.

QUESTION 53:

Can you please explain the increase in the program budget for 8(a) Contracting?

The program budget for the 8(a) Business Development Program includes costs to administer the program, which are direct costs from the operating budget, including contracts; compensation and benefits, Agency-wide costs, such as rent and telecommunications; and indirect costs.

Direct program costs are identified in Table 3 and Table 6 of SBA's Performance Plan, Evaluation Plan, Budget, and Performance Report ([sba.gov](https://www.sba.gov)). As outlined in Table 3, SBA's Office of Government Contracting and Business Development has a requested *decrease* in direct operating costs of \$5 Million as the IT system supporting the Veterans Certification program is operational and any upfront costs to deploy the system is no longer needed. The program budget for the 8(a) Business Development Program includes an inflationary increase for payroll. Indirect Costs are determined from the cost allocation survey that is conducted annually. Indirect costs are arrived at by SBA employees outside of the direct program office responding on the survey that they provided support on specific programs. The FTEs in Office of Field Operations (OFO) are a large contributing factor in costs of a program as they are the front-line contacts with the general public for all SBA programs.

With the COVID programs winding down, the budget year estimates anticipate OFO to be able to focus more on SBA's core programs that mirror pre-pandemic levels. Increased budget supports priority goals to maximize utilization of SDB firms to meet the 15% SDB goal in FY 2025.

7(i)/Empower 2 Grow Program

QUESTION 54:

Eligible business owners include low-income individuals, residents of high-unemployment areas, EDWOSBs, HUBZone participants, and 8(a) firms. What ratio of firms considered 8(a) or minority-owned businesses, were served through this program compared to the other eligible participants?

In Fiscal Year 2023 more than 6,000 small-disadvantaged businesses participated in the program and, on average, firms that received training self-reported that their percentage growth in annual revenue had increased by 45%.

In Fiscal Year 2024, over 2,486 SDB's have received Empower to Grow Training, of which 1,220 are 8(a) Program Participants, or nearly 49%.

To be eligible for the Empower to Grow program, a small business must be one or more of the following:

- Located in areas of high unemployment or low income.
- Owned by low-income individuals.
- Certified as an 8(a) participant, HUBZone small business, or economically-disadvantaged women-owned small business.

QUESTION 55:

What are the conditions of the grants awarded in FY23 and how much grant money was distributed?

In September of Fiscal Year 2023, \$750,000.00 were awarded to three grantees. Criteria and eligibility for these awards can be found in this Notice of Funding Opportunity, 7J Management and Technical Assistance Services. Conditions of the grant were specified in the grant award notices provided to the grant recipients and include, but are not limited to, reporting requirements (quarterly and annually), performance reporting and performance measures according to their proposals, and financial reporting.

QUESTION 56:

What oversight is being conducted to ensure grant funding is used appropriately?

SBA's Office of Grants Management (OGM) in conjunction with the Office of Business Development's, Management and Technical Assistance Division, conduct oversight for the grants awarded in FY 2023. Activities to include communication with the recipient, monitoring compliance through forms and audits.

The SBA relaunched the 7(j) Program, rebranded as Empower 2 Grow, in January. The press releases accompanying this relaunch stated this would include "[new] Bidding technology for 8(a) firms to receive, review, and respond to over \$2 trillion of State and Local bid opportunities."

QUESTION 57:

Can you elaborate on this new bidding technology and costs associated with it?

The bidding technology is delivered as part of the grant awarded to NetQuarry, as part of their Bidspeed tool. The NetQuarry has 1,500 licenses available for 8(a) Program Participants. Firms are able to access up to three states to expand their revenue opportunities. The state and local bid opportunities provide firms with up to \$1 trillion dollars in bids nationwide. The bidding technology expands opportunities in local communities through local minority business enterprises (MBE) and disadvantaged business enterprises (DBE) statuses with local State to gain preference on contracts as a small business.

QUESTION 58:

Why is this new technology accessible only to 8(a) firms when other types of firms are eligible for Empower 2 Grow?

All eligible small disadvantaged firms can access Empower to Grow programs. To be eligible for the Empower to Grow program, a small business must be one or more of the following:

- Located in areas of high unemployment or low income.
- Owned by low-income individuals.
- Certified as an 8(a) participant, HUBZone small business, or economically-disadvantaged women-owned small business.

QUESTION 59:

Can you please explain the increase in the program budget for the 7(j)/Empower 2 Grow Program?

The program budget for the 7(j)/Empower to Grow Program includes costs to administer the program, which are direct costs from the operating budget, including contracts; compensation and benefits, Agency-wide costs, such as rent and telecommunications; and indirect costs. Direct

program costs are identified in Table 3 and Table 6 of SBA's Performance Plan, Evaluation Plan, Budget, and Performance Report ([sba.gov](https://www.sba.gov)).

The additional direct 7(j) funding of \$2.8 Million for SBA's Empower to Grow Program will help SBA expand its customer-centric service to deliver nationwide business development and technical assistance training focused on procurement readiness to help position our Nation's small disadvantaged businesses for business growth success across local, state, and federal marketplaces. The training will be delivered nationwide through a hybrid approach of virtual and in-person training, one-on-one counseling, and new cohort learning models.

Indirect Costs are determined from the cost allocation survey that is conducted annually. Indirect costs are arrived at by SBA employees outside of the direct program office responding on the survey that they provided support on specific programs. The FTE in Office of Field Operations (OFO) is a large contributing factor in costs of a program as they are the front-line contacts with the general public for all SBA programs.

With the COVID programs winding down, the budget year estimates anticipate OFO to be able to focus more on SBA's core programs that mirror pre-pandemic levels.

Mentor-Protégé Program

QUESTION 60:

Is the SBA capturing, and can you provide data on the types of firms participating as protégés?

QUESTIONS 61:

Specifically, are protégés typically newer entrants or mature small companies?

QUESTION 62:

Is the SBA capturing, and can you provide data on the types of firms participating as mentors?

QUESTION 63:

How is the SBA enforcing business development assistance requirements in Mentor-Protégé Agreements?

QUESTION 64:

Is the SBA collecting data on the number of joint ventures formed through the ASMPP, and the total contract awards made/total contract dollars won through these joint ventures?

If so, can you please share such data with the Committee?

QUESTION 65:

Is SBA concerned with joint ventures formed through the ASMPP obtaining a growing market share of small business opportunities, to the detriment of small businesses competing on their own or with similarly situated entities?

QUESTION 66:

Is the SBA tracking any additional performance measures and targets beyond the three indicated in the CBJ to assess and measure program outcomes?

Answers to Questions 60-66:

SBA Office of Congressional and Legislative Affairs is available to arrange a briefing with your staff.

Women-Owned Small Business Contracting Program

QUESTION 67:

How much of the program budget is used to oversee the WOSB program's Third-Party Certifiers?

SBA does not have a separate budget line item for the WOSB Program. The overall direct operating budget of SBA's Office of Government Contracting and Business Development is used to support WOSB Program activities, including oversight of Third-Party Certifiers. SBA uses 2 FTEs, who devote an average of 70% of their time, to support oversight of the WOSB Program's Third-Party Certifiers.

QUESTION 68:

How much of the program budget is used for the purposes of SBA's ChallengeHER initiative?

The SBA has a co-sponsorship agreement with Women Impacting Public Policy and American Express for the ChallengeHER initiative. The SBA has no cost associated with this effort.

Veteran Small Business Certification Program

QUESTION 69:

Can you please describe in greater detail the SBA's risk framework for the VetCert program, which includes "post-verification processes which will ultimately be supported by technology"?

The risk framework for the SBA VetCert program seeks to identify certified firms that are non-compliant with regulatory requirements and therefore ineligible for Veteran set-aside contracts. VetCert has determined that firms that present the greatest risk are firms that have been awarded contracts valued at \$10M or greater in the previous three fiscal years. Firms are identified using random sampling based on a list of factors to include contracts awarded, industry type, ownership structure, and business type. Once identified, VetCert conducts program examinations to ensure firms have remained compliant after certification. Program examinations are conducted virtually or as an unannounced site visit. Firms determined to be ineligible, as a result of the program examination, are removed from the VetCert database and thus ineligible for future contract awards.

QUESTION 70:

How much of the program budget is anticipated to be used to develop this risk framework technology?

The referenced risk framework technology will not be included in the development of the Unified Certification Platform (UCP) system at this time. SBA's set-aside certification programs each apply program-specific criteria to evaluate participants' continuing eligibility against program regulations. As SBA risk management capabilities mature, SBA may consider some aspects of risk technology.

QUESTION 71:

Does the SBA expect to extend this post-verification, risk framework technology to its other contracting programs?

See response to Question 70 above. Currently, each of SBA's set-aside certification programs apply program-specific criteria to evaluate participants' continuing eligibility against program regulations.

QUESTION 72:

Does the SBA view this approximate \$27 million program budget for the VetCert program as the new baseline for the program in the years moving forward?

SBA continues to monitor and evaluate VetCert program costs. SBA will continue to support the full cost of operating this program in the years moving forward.

SCORE Program

Since 2014, the amount of SCORE funding enacted has more than doubled – from \$7 million in FY10 to \$17 million in FY24. During that same time, the number of SCORE chapters dropped from about 350 to around 230, while the number of SCORE volunteers decreased from approximately 13,000 to 10,000.

QUESTION 73:

Why did SBA request increased funding over several years if it continues to lose chapters and volunteers?

SCORE's impact and success is measured by the number of clients served, small business outcomes—such as new business starts—and the revenue increases of small businesses served. SCORE has merged chapters to streamline and bolster administrative efficiencies. SCORE's performance indicators illustrate its increased measurable impact on small businesses. Since 2018 SCORE has focused on increasing its volunteer capacity, which has resulted in serving more clients (+10%).

Over time, SCORE has repeatedly changed its metrics, making it challenging to assess the program's impact on small business owners. In 2019, SCORE started counting the number of unique clients served.

QUESTION 74:

Why has SBA struggled to create effective metrics for the SCORE program?

SBA has created effective metrics for the SCORE program. For example, in FY 2019, SBA began reporting the number of unique clients served by the SCORE network to illustrate the network's unique client reach. With this added metric, SBA can more fully evaluate—for instance—revenue changes within a more specific indicator, such as “unique clients served”.

The 2019 SBA OIG report found that SBA overreported SCORE's number of clients trained by 31% in FY2017. That same report found that 67% of the SCORE association's FY2017 award was spent on the National SCORE Office, with only 33% going out to its 300 chapters.

QUESTION 75:

Is the majority of SCORE funding still going to the national chapter?

More than two-thirds of SCORE funding goes to SCORE clients and volunteer support.

SCORE does not have a “national SCORE chapter,” as SCORE is one nationwide organization. For compliance reasons, all funds are managed by SCORE-HQ with strict internal controls and policies to account for every dollar invested on the SCORE program.

The SCORE chapters and districts receive direct field allocations, while the majority of SCORE HQ level allocation is spent on direct client and volunteer services. Field allocations are provided to the volunteer Regional Vice Presidents (RVPs) based on the percentage of total service each region delivers. RVPs consult with their volunteer District Directors to allocate funds to local chapters based on needs, demonstrated impact and strategic priorities.

This coordination ultimately saves money on program costs, streamlines systems and processes, and averts duplicative efforts.

QUESTION 76:

Can you please provide a break down of the FY23 SCORE budget and how much went to the National office versus chapters?

Most of SCORE funds (67.5%) go directly to Client and Volunteer Services. 36.1% of SCORE funds are invested in Client Services while 31.4% are invested in Volunteer Services. 32.5% of SCORE’s total funds are spent on Administration. SCORE continually strives to cut costs while effectively serving hundreds of thousands of clients nationwide and supporting ten thousand volunteers.

SBDCs Matching Funds

QUESTION 77:

Over the past decade, how many SBDCs have reported to SBA challenges gathering matching funding?

Typically, two of the U.S. territories have requested and been granted matching waivers consistent with U.S. Code Title 48 § 1469a(d) and § 601 of Pub. L. No. 96-205 and § 6 of Pub. L. No. 98-213. In addition, there have been 3 SBDCs that have not leveraged their full funding available due to match challenges.

QUESTION 78:

What steps has SBA taken to address these challenges?

SBA has reviewed and granted waiver requests consistent with the applicable laws cited above. The territories/ islands within this network do not have the robust sources of matching funds; therefore, the match waivers have empowered them to maintain operations and deliver services.

In the case of the other 3 SBDCs that did not request full funding, SBA has worked closely with and has recommended consultation and outreach to similarly-situated SBDCs to leverage peer expertise in obtaining alternative sources of matching funds that would allow them to leverage their full funds.

Community Navigators

In its FY25 Congressional Budget Justification, SBA requested \$20 million for the Community Navigators Pilot Program (CNPP). SBA's own metrics show CNPP has failed to perform. The 2023 program report showed that they underperformed their target number of new business starts by 20%, and got less than half of their target capital infusion.

QUESTION 79:

The Community Navigators Pilot Program was funded by a one-time appropriation. Does SBA intend to make Community Navigators into a permanent program? If so, why?

Community Navigators are organizations or individuals with credible, established roots in underserved communities. To increase participation in SBA services by business owners from these underserved communities in assistance programs, Community Navigators leverage their culturally-competent and trusted relationships with these communities. Community Navigators are best positioned to conduct this level of grassroots outreach given their backgrounds as trusted partners in the underserved communities. Roughly 75% of small businesses reached with counseling services through the Community Navigators program report not having previously done business with the SBA in the prior five years.

Women Business Centers

On March 25, 2024, the White House and SBA announced "new funding opportunities to new funding opportunities to support small businesses in the child care sector through SBA's Women Business Center (WBC) program."

QUESTION 80:

When will these new funding opportunities be announced?

QUESTION 81:

What will be the selection criteria?

QUESTION 82:

Will the funding opportunities be restricted on the basis of geography, partner institution, target population, or any other significant characteristics?

QUESTION 83:

Will the demographic and ethnic makeup of WBCs target populations be considered? If so, can you please indicate target demographics?

QUESTION 84:

What is the funding source for these new award opportunities? Can you please indicate the source SBA account?

QUESTION 85:

How much funding is earmarked/allocated/set aside for these new funding opportunities?

QUESTION 86:

What will be the size of the new awards? Please indicate the dollar amount?

Answers to Questions 80-86:

We plan to announce awards later this year and will share information with the Committee.

SBA's Unresponsiveness to Congress

Several letters from me and my staff have gone unanswered. When I do receive a response, I get partial information or irrelevant information. For example, the four corners of the Senate and House Small Business Committees sent a letter in May of 2023 asking for you to pause the lending rules until permanent leadership was established at the office of capital access.

QUESTION 87:

Why did you not respond?

As SBA's Office of Congressional and Legislative Affairs has previously communicated to the Committee, SBA had a routine leadership transition in the Office of Capital Access. A staffing change should not prevent the agency to stop operations in any facet of our operations.

QUESTION 88:

Will you commit to responding to all congressional requests thoroughly and not wait until you appear before this committee?

SBA stands by its demonstrated record of responsiveness to Congress.

SBA's Rural Outreach

A February 2024 GAO report found that rural areas face unique challenges seeking SBA assistance following a disaster. These include remote locations, limited local capacity, and disruption of telecommunication and transportation networks after disasters. GAO recommended that SBA tailor its outreach for rural and urban communities, and mitigate the challenges faced by rural communities accessing the Disaster Loan Program.

QUESTION 89:

In response to GAO's recommendation, SBA shared that the Office of Disaster Recovery and Resilience (ODR&R) was in the process of updating the Outreach, Engagement, and Marketing strategy to include "ongoing engagements and trainings and updates of materials that will specifically focus on rural communities." To date, what updates has SBA made to this strategy?

The SBA Office of Rural Affairs is working with the Office of Disaster Recovery & Resilience (ODR&R) on a resource guide for rural communities impacted by natural disasters. SBA is also partnering with USDA, FEMA, and other disaster response agencies to better coordinate the resources and information sharing the federal government can bring to disaster response in rural communities.

QUESTION 90:

What has SBA implemented specifically focused on rural communities?

SBA has reinvigorated the Office of Rural Affairs with new leadership, and we are excited to announce Anna Maria Lucas as the Director. Anna Maria works closely with SBA's Office of Disaster Recovery and Resilience (ODR&R) and our 68 local District Offices as well as our federal, state, local, tribal and territorial stakeholders to reach our rural communities.

The Disaster Assistance for Rural Communities Act (RCA), signed on December 20, 2022 (Public Law 117-249) gave SBA new authority to declare a disaster in a rural area upon request

by the Governor of the State or the Chief Executive of the Indian Tribal government in which the rural area is located. The RCA went into effect on June 5, 2023. From June 5, 2023 – April 30, 2024, 15 rural disasters have been declared and 167 loans have been approved for \$8,305,800. (150 rural home loans for \$6,755,600, 7 rural business loans for \$710,400, and 10 rural EIDL loans for \$839,800). SBA ODR&R continues to provide training to federal, state, local, tribal, and territorial stakeholders as well as SBA staff regarding the RCA.

Additionally, in November 2023, SBA entered into an MOU with USDA to align our outreach to rural communities for awareness and trainings around technical assistance, mentorship opportunities, resource partners and the Rural Partners Network. SBA continues to tailor outreach efforts to the specific needs of rural communities and work with District Offices, resource partners, and federal, state, local, tribal, and territorial partners to serve rural small businesses.

QUESTION 91:

How has SBA considered the importance of in-person communication?

SBA considers the importance of engaging with small businesses in ways that are most beneficial to them. SBA always considers the importance of in-person communication, and for this reason, SBA staff regularly engage with small businesses face-to-face and in-person. SBA also ensures there are other means to reach small business owners who cannot engage in-person, such as individuals in rural locations or with disabilities.

QUESTION 92:

SBA also noted that ODR&R was in the process of procuring an additional 5 Portable Loan Outreach Centers (PLOCs). To date, how many times has SBA deployed PLOCs?

SBA deployed the PLOC seven (7) times to support disaster declarations in 6 different states. During these deployments the PLOCs were employed to thirteen (13) geographically different locations, seven (7) of which were rural communities in Everglades City, FL; Arcadia, FL; Wauchula, FL; Cedar Key, FL; Lafayette County, FL; Selma, AL; and Sharkey County, MS.

State	Date	County	Locations	Incident type	Comments
Florida 17644	October 7, 2022 - December 3, 2022	Collier	Everglades City	Hurricane Ian	Rural Community
		Volusia	New Smyrna Beach	Hurricane Ian	
		Volusia	Daytona Beach	Hurricane Ian	
		Desoto	Arcadia	Hurricane Ian	Rural Community
		Harden	Wauchula	Hurricane Ian	Rural Community
		Highland	Lake Placid	Hurricane Ian	
Alabama 17636	February 28, 2023 - March 27, 2023				
		Dallas	Selma	Severe Storms, Straight line Winds, and Tornadoes	Rural Community
Mississippi 17638	March 25, 2023 - June 30, 2023				
		Sharkey	South Delta High School Parking lot	Tornadoes	Rural Community
Florida 18110	September 9, 2023 - October 24, 2023				
		Levy	Cedar Key Fire Station	Hurricane Idalia	Rural Community
		Lafayette	Veterans Memorial Park of Mayo	Hurricane Idalia	Rural Community
Maryland 20258	April 20-27, 2024				
		Anne Arundel	Arundel Civilian Church	FSX Bridge Collapse	
Hawaii 18061	September 6 - November 25, 2023				
		Mau	Lahaina	Mau Wildfires	
Louisiana 20232	April 9 - May 2, 2024				
		LaFourche Parish	Ravens	Severe Storms, Straight line Winds, and Tornadoes	

QUESTION 93:

How many of these were to rural areas?

SBA deployed the PLOC seven (7) times to support disaster declarations in 6 different states. During these deployments the PLOCs were employed to thirteen (13) geographically different locations, seven (7) of which were rural communities in Everglades City, FL; Arcadia, FL; Wauchula, FL; Cedar Key, FL; Lafayette County, FL; Selma, AL; and Sharkey County, MS.

QUESTION 94:

What is the SBA's PLOC deployment procedures? Please provide supporting documentation to the Committee?

The PLOC was designed to provide services to marginalized communities in the form of direct customer service or outreach and engagement. SBA is committed to the principal that "all disasters are local." Our efforts are focused on notifying and engaging local governments when declarations have been issued, coordinating, and gaining the advice and knowledge of local government when locating Centers to provide our services, and providing information to local governments on the resources that have been delivered within their communities as we reach the end of the registration periods on events. SBA published a numbered memo that captures several initiatives to ensure engagement with local governments and business/economic groups, community-based organizations such as members of the National Voluntary Organizations Active in Disaster (NVOAD), and other recovery partners in addition to long-standing SBA resource partners is central to our philosophy. This memo also incorporates how we initiate our outreach and engagement strategy at the start of a disaster declaration and how we close out disaster declarations with key stakeholders.

SUBJECT: Local Jurisdiction Coordination (Outreach and Engagement)

Purpose: Establish ODR&R processes and procedures for engaging local leaders in identifying locations of SBA controlled centers during Presidential declarations for Individual Assistance, synchronizing O&E activities with key disaster partners and providing Declaration Closing Document to highlight SBA's contributions in helping impacted communities to recover and become more resilient. ODR&R will follow the steps identified below to achieve the intended purpose.

Step 1.

Criteria for Prioritizing Coordination When Disaster Occurs

FOCs will analyze the impacted area and prioritize engagement with officials at the state and local levels (counties, parishes, municipalities, etc.). The criteria for prioritizing coordination will include:

- Severity of damage in the impacted areas based on:
 - Data from PDA results
 - Information gathered during engagements with local officials.
 - Data input from DART to support the planning process.
- Demographic data from Census Bureau to determine:
 - Population density and racial composition of the disaster area
 - Number of business establishments, industries, etc.
 - Socio economic factors such as household /family income, literacy
- Rural and underserved communities, including ethnic/cultural considerations, language needs.
- Known political sensitivities (Public Sensitive Incidents)

Step 2

Outreach and Engagement (O&E) Strategy

Develop an O&E plan based on factors identified during the analysis/assessment of the disaster impacted area. As a catalyst to our O&E plan, FOCs will:

- Identify and collaborate with key disaster partners when executing our O&E Strategy (FOCs Focused O&E Strategy)
- Contact local officials: Coordinate with local county/city officials in the impacted areas for assistance in identifying locations of BRC, DLOC, PLOC, BRAC, before contacting Resource Partners and other stakeholders for center selections.
Category 1 Level Disaster: Submit a memo with a list of stakeholders and their bios, if available, to Partnership and AA's Executive Assistant for Associate Administrator's engagement **within 72 hours** of a signed declaration and notify FOCs of the engagement outcomes. AA's Executive Assistant will notify FOCs the outcome of the discussions between AA and the stakeholders, which will tailor our O&E activities with the stakeholders.
- PPP will facilitate HQ-level O&E with appropriate national partner organizations.
- Category 2 & 3 disaster will follow the guidelines found in the O&E synchronization matrix.

Step 3**Declaration Closeout Document**

The Office of Disaster Recovery Division will prepare and provide AA a Close Out Report **15 days after the physical filing deadline** to share with stakeholders the AA engaged at the onset of the declaration. The report will highlight SBA's contributions in supporting the recovery and resilience of the impacted communities and where survivors can obtain additional support, etc.

Step 4**Execution**

When a disaster occurs, FOCs will:

- Contact FEMA and the state and determine the potential counties for the declaration.
- Initiate analysis of the area and obtain potential list of stakeholders including official bios (when available) for AA to engage.

When declaration is approved, within 24-48 hours of receiving the declaration, FOCs will:

- Finalize the memo with a list of stakeholders and submit to HQ along with the Execution Plan
 - CC Partnership Team and AA's Executive Assistant
- AA's Executive Assistant will provide the outcome of AA's engagement with the stakeholders to FOCs.
- Modify the Execution Plan's O&E strategy based on AA's engagement outcome.
- Conduct O&E activities throughout the declaration period

Office of Recovery Division

The Office of Recovery Division will:

- Prepare Declaration Closing Document - Closeout Report **15 days after the physical filing deadline** and forward to AA's Executive Assistant
- Upon approval by AA, the Executive Assistance will distribute the Declaration Closing Document to the stakeholders the AA engaged at the onset of and throughout the declaration.

Step 5**Rollout Strategy for Stakeholders' Awareness**

FOCs will take the lead in educating Federal, State, Tribal governments of the new Local Jurisdiction Coordination process prior to disaster, as part of the blue-sky program.

- Local (City/County) Emergency Management Outreach
- Big City Emergency Management Conference
- State EM Conferences
- SAM Partners
- FEMA Individual Assistance Calls
- RISC Meetings
- State Emergency Management Conferences

- Other forums as applicable to include email campaign to key stakeholders at the federal and state levels:
 - o Governors and Tribal Chief Executive offices
 - o FEMA Regional offices
 - o State Emergency Management Directors
 - o State Economic Development Directors

QUESTION 95:

According to the report, state and local officials described the SBA application process as “complex, slow, and inefficient.” Frequent staff changes, poor customer service, and delayed disbursements were some of the issues faced. What steps is SBA taking to improve its disaster lending platform or customer service?

The GAO report referenced examined the disaster loan program for declared disaster events in fiscal years 2017-2022. In fiscal year 2023, SBA began work on its unified lending platform (ULP) and completed implementation of a new streamlined online disaster loan application in December 2023. The ULP provides an improved customer experience for existing SBA loan borrowers and new disaster loan applicants. Processing and disbursement times so far in ULP are faster than in the legacy Disaster Credit Management Center System (DCMS), including by as much as 60 days faster from application to initial disbursement. In collaboration with the United States Digital Service, SBA is also working with FEMA on identifying opportunities for cross-agency data sharing to pre-fill information required for both SBA Disaster Loans and FEMA Individual Assistance. SBA is committed to leveraging customer experience research, feedback data collection, and operational metrics to ensure that SBA can best listen to and serve customers.

SBA’s Rural Disaster Declarations

The Disaster Assistance for Rural Communities Act became law in 2022, authorizing SBA to issue rural disaster declarations.

QUESTION 96:

As of April 3, 2024, how many declarations has SBA issued under this authority?

From June 5, 2023 – April 30, 2024, 15 rural disasters have been declared and 167 loans have been approved for \$8,305,800. (150 rural home loans for \$6,755,600, 7 rural business loans for \$710,400, and 10 rural EIDL loans for \$839,800).

QUESTION 97:

How many loans were issued as of April 3, 2024?

From June 5, 2023 – April 30, 2024, 15 rural disasters have been declared and 167 loans have been approved for \$8,305,800. (150 rural home loans for \$6,755,600, 7 rural business loans for \$710,400, and 10 rural EIDL loans for \$839,800).

QUESTION 98:**What was the total dollar amount of loans issues as of April 3, 2024?**

From June 5, 2023 – April 30, 2024, 15 rural disasters have been declared and 167 loans have been approved for \$8,305,800. (150 rural home loans for \$6,755,600, 7 rural business loans for \$710,400, and 10 rural EIDL loans for \$839,800).

QUESTION 99:**In January 2024, SBA said that it would incorporate training on rural disaster declarations into their default training. What is the status implementing this training for field operations staff?**

SBA conducted a two-pronged training strategy for the implementation of the rural declaration process. Initially, all disaster field staff were trained on the process and refresher training continues to be provided as needed. In the next step of the implementation, we trained federal, state, and local partners during monthly FEMA Regional IA meetings, partner calls, state workshops, and senior leadership meetings. This training provided information on county eligibility and how to apply for a rural declaration. Additionally, when onboarding new employees, training is provided which includes policy and procedures regarding rural declarations.

Portable Loan Outreach Centers (PLOCs)**QUESTION 100:****How many times were PLOCs deployed in 2023?**

In 2023, the PLOC was deployed to four (4) Presidential declarations. Throughout these declarations, the PLOCs were employed in five (5) geographically different locations.

QUESTION 101:**Can you provide the committee with the number and location of PLOCs deployed, broken out by city and state?**

Please see the table below.

State	Date	County	Locations	Incident type	Comments
Florida 17848	October 7, 2023 - December 9, 2023	Collier	Everglades City	Hurricane Ian	Rural Community
		Volusia	New Smyrna Beach	Hurricane Ian	
		Volusia	Daytona Beach	Hurricane Ian	
		Oceola	Aracata	Hurricane Ian	Rural Community
		Harden	Wichula	Hurricane Ian	Rural Community
Alabama 17858	February 26, 2023 - March 27, 2023	Highland	Lake Placid	Hurricane Ian	
		Dallas	Selma	Severe Storms, Straight line Winds, and Tornadoes	Rural Community
Mississippi 17855	March 29, 2023 - April 26, 2023	Sharkey	South Delta High School Parking lot	Tornadoes	Rural Community
Florida 18118	September 9, 2023 - October 14, 2023	Levy	Cedar Key Fire Station	Hurricane Idella	Rural Community
		Lafayette	Veterans Memorial Park of Mayo	Hurricane Idella	Rural Community
Maryland 20258	April 28-29, 2024	Anne Arundel	Arundel Christian Church	PSK Bridge Collapse	
Hawaii 18061	September 8 - November 13, 2023	Maui	Lahaina	Maui Wildfires	
Louisiana 20292	April 6 - May 4, 2024	LaFourche Parish	Reoland	Severe Storms, Straight line Winds, and Tornadoes	

QUESTION 102:

Can you provide the committee with the total number of PLOC outreach initiative business contracts, including the number leading to successful loan applications?

Please see the answer to Question 101.

QUESTION 103:

Can you provide the committee with the number and geographic location (city, state) of financial institutions and local community support groups that SBA has worked with to arrange additional assistance?

Southeast Kentucky Economic Development Corporation (SKED)- Somerset, KY- Eastern Kentucky Flooding

- A Community Development Financial Institution serving 45 counties in Southern and Eastern Kentucky, established an Emergency Business Disaster Loan Program available to qualifying small business owners in counties impacted by the flooding disaster. SBA referred several Eastern Kentucky business owners impacted by the flood to SKED to determine their eligibility for up to \$5,000 in low-interest loan funds through SKED's emergency financing program. SKED made 12 Emergency Disaster Business Loans to small businesses within the flood-impacted Eastern Kentucky counties. These loans totaled \$60K.

Operation Hope, Atlanta, GA – Hawaii Wildfires

- Worked with Operation Hope to assist new or existing small business owners identify their key needs and then provided the education, financial coaching and connections needed to reestablish and improve their business. SBA and Operation Hope were located in the first-ever established BRAC (Business Recovery Assistance Center), Lahaina, HI, along with other supporting entities.

Council for Native Hawaiian Advancement (CNHA), Maui, HI – Hawaii Wildfires

- SBA partnered with the CHNA providing staff at the Kako'o Maui Resource Hub to offer resources and aid for Maui residents impacted by the wildfires which included panel discussions regarding health, workforce, housing, agriculture, and civil rights. The Kako'o Maui Resource Hub opened in September 2023 and continues to operate.

Shaping Our Appalachian Region (SOAR)- Pikeville, KY - Eastern Kentucky flooding

- SOAR is a nonprofit serving the 54 Appalachian Regional Commission Counties of Eastern Kentucky. As part of the Whole of Community approach to recovery, SBA partnered with SOAR following a Presidential Declaration to provide recovery services to businesses impacted by flooding in Eastern Kentucky. In collaborating with SOAR, SBA developed joint flyers outlining SBA disaster loan program and SOAR's grant program and distributed these in all business and disaster recovery centers. In addition to receiving SBA's disaster loans, several residents of Eastern Kentucky also received grants from SOAR.

San Diego Voluntary Organizations Active in Disaster (VOAD) - San Diego, CA

- The mission of the San Diego VOAD is to enhance the efforts of member organizations through interagency planning, relief, response, and recovery activities, all directed toward the goal of giving area residents adequate services when disaster strikes. Leading long-term recovery efforts in San Diego, including educating survivors on disaster relief related the January 2024 flood in San Diego County, this organization is working with SBA to inform the public of our services offered. Volunteers from this group are creating an active database of disaster survivors still in need of help. They are also working with SBA to educate and inform survivors of resources available to them from SBA.

Tennessee SmartStart, Nashville TN - State Level Econ Development, Technical, Resource – Tennessee Flooding

- Collaborated with this organization that provided community access, support and resources crucial to early business success. Their online tools help future business owners visualize their business model and connect with resources across the state. Referred businesses to them that needed help rebuilding their financial statements and credit history. Trained staff on the application process and how to apply.

SBA's Environmental Justice Scorecard

In Executive Order 14008, President Biden required OMB publish an annual "Environmental Justice Scorecard" detailing agency environmental justice performance measures. SBA's 2023 Equity Action Plan included a summary of its efforts to advance "environmental justice" through its Disaster Loan Program.

QUESTION 104:**How does SBA define “environmental justice?”**

SBA uses the definition of environmental justice published by the U.S. Environmental Protection Agency (EPA). The EPA defines environmental justice as “the just treatment and meaningful involvement of all people, regardless of income, race, color, national origin, Tribal affiliation, or disability, in agency decision-making and other Federal activities that affect human health and the environment so that people:

- are fully protected from disproportionate and adverse human health and environmental effects (including risks) and hazards, including those related to climate change, the cumulative impacts of environmental and other burdens, and the legacy of racism or other structural or systemic barriers; and
- have equitable access to a healthy, sustainable, and resilient environment in which to live, play, work, learn, grow, worship, and engage in cultural and subsistence practices.”

QUESTION 105:**How does the SBA determine if a project advances “environmental justice?”**

SBA provides support for environmental justice for underserved communities primarily through the disaster loan program. This program provides financial assistance for businesses, non-profit organizations, homeowners, and renters following a disaster and helps borrowers prepare for future disasters through mitigation loans.

QUESTION 106:**Are there any quantifiable metrics used to evaluate “environmental justice” projects?**

Metrics used to evaluate agency progress are outlined in Executive Order 14096.

SBA’s Equity Plan (Access to Capital)

In the SBA’s Equity Plan, the agency says it will improve access to loan capital by enrolling new lenders with a capacity to reach underserved markets.

QUESTION 107:

How will new lenders be able to reach veterans businesses, which are underserved markets, if there is no specific plan to include them?

SBA’s Office of Veteran Business Development works each day to support our veteran communities.

SBA lenders regularly communicate and collaborate with local SBA District Office teams to connect with and train underserved/underbanked communities which include veterans and military spouses. Veteran Business Outreach Centers (VBOCs) work closely with their local SBA District Offices to ensure veteran and military spouse entrepreneurs have access to the info and resources they need to start and grow their small businesses. This includes access to capital resources such 'lender ready' training, SBA loan programs and connection to local lenders.

QUESTION 108:

What incentivizes lenders to support veteran-owned businesses?

Qualified veterans and military spouses are not required to pay an upfront guaranty fee for SBA Express loans.

QUESTION 109:

The SBA also places a focus on justice-involved individuals and increasing their access to business capital. The only two restrictions from accessing business capital from the SBA would be that an individual is currently incarcerated and or previously defrauded the government. **Will SBA approve a loan to someone who has committed financial crimes outside of government fraud?**

SBA finalized this rule on May 1, 2024. SBA Office of Congressional and Legislative Affairs would be happy to brief your staff.

SBA's Equity Plan (Access to Government Procurement and Contracting)

In SBA's Equity Report, the agency cites a figure from the White House, which states that the annual paperwork burden imposed by federal executive departments and agencies on the public exceeds nine billion hours.

QUESTION 110:

What steps has SBA taken to address tedious paperwork, so that Small Businesses can better access these resources?

SBA has introduced two platforms that improve the customer experience (CX) so that small business owners have an easier experience accessing SBA programs and information.

The Unified Certification Platform (UCP) is a CX-driven, unified set-aside certification system that achieves excellent customer experience for our small business constituents. The UCP system, accessible via the MySBA portal through single sign-on, will consolidate retrieval of historic data and documents, unify single application to all set-aside programs, and synchronize

management of re-certifications. This system will replace five existing, separate systems, one of which is [Certify.sba.gov](https://certify.sba.gov).

Additionally, SBA's enhanced Lender Match platform provides Americans seeking funding to start and grow their businesses with a simple, online tool that will more effectively match them with the SBA's competitive lending products and additional offerings from a trusted network of banks and private lenders.

QUESTION 111:

I have introduced the ACCESS Act to help increase access to government contracting by requiring contracting requirements to be written in plain language. How will this help the SBA reach its stated goal of reducing barriers to entering the contracting world?

Plain-language solicitation would help small businesses, and especially those new to contracting, understand the agency's requirements.

In attempt to reduce the paperwork burden on Small Disadvantage Businesses (SDBs), the SBA has promoted a self-certification process. In the past, we have seen significant fraud when it comes to the self-certification process in government contracting.

QUESTION 112:

What is being done to ensure that government contracting set-asides for Small Disadvantage Businesses go to businesses that are actually disadvantaged?

The Federal government does not operate a set-aside program for small disadvantaged businesses. The SBA's 8(a) business development program requires that all participants be disadvantaged, but not all disadvantaged businesses can qualify for that program. SBA employs a rigorous application-review process to ensure that all 8(a) participants are disadvantaged.

QUESTION 113:

In the 2022 Equity Action plan, the SBA stated that it plans on tracking the dollars spent on SDBs by federal agencies, the number of opportunities available, and the number of SDBs participating in contracting. What measures are you taking to collect this data?

SBA publishes agency-by-agency data on SDB spending annually through the SBA scorecard, available at sba.gov/scorecard. As required by section 15(y) of the Small Business Act, the SBA scorecard also reflects the number of SDBs participating in contracting. As required by NDAA FY23, section 871, SBA also publishes data on the number of set-aside opportunities available to various categories of small business. That set-aside information is available at the [Small Business DataHUB](https://smallbusinessdata.hub.sba.gov).

In addition to tracking Small Disadvantaged Business (SDB) spend through the Federal Procurement Data System Next Generation (FPDS/NG), which is accessible to SBA Procurement Center Representatives, Procurement Center Representatives (PCRs) coordinate with SBA District Office Business Opportunity Specialists (BOSs) to increase the governmentwide goal for spending with Small Disadvantaged Businesses to 13% in FY24. This is accomplished through close coordination between BOSs and PCRs to track SDB spend across regional areas. SBA also issued a proposed rule in the Federal Register that, when finalized, will open up possibilities for new and nontraditional small business contractors to compete for contract opportunities. This move will radically alter the socioeconomic makeup of larger contracts with the intent of pushing toward accomplishing the SDB goal to 15% by FY25. Further effort to track data involves releasing disaggregated data across industries and sectors by race and ethnicity and developing and advocating for contracting reforms that will require federal agencies to track and publicly report how they are bringing in new (i.e., first-time) federal contractors, develop diversification strategies, and open doors for more socio-economic, underserved firms to sell their goods and services to the Federal marketplace.

QUESTION 114:

The SBA states that it plans to advance education programs and outreach to Small Disadvantage Businesses and small businesses in underserved communities. What specifically is the SBA doing to reach out to underserved rural communities?

The SBA lists leveraging technology to modernize the application process as a way that the agency plans on reducing the paperwork burden. Broadband access is already a difficulty that many rural small business owners face. SBA is working with its resource partners—including Small Business Development Centers (SBDCs), Women's Business Centers, and SCORE chapters—to focus outreach with an added emphasis on rural markets.

QUESTION 115:

What specifically is the SBA doing to increase outreach to underserved veteran communities?

The Office of Veteran Business Development partners with Veterans Business Outreach Centers (VBOC) to administer veteran technical assistance and training programs, which includes the Boots to Business program.

VBOCs and SBA District Offices connect with transitioning service members and military spouses via the Boots to Business Training Program conducted at over 170 military installations within the United States. Overseas service members and spouses have access to the Boots to Business Training Program conducted by the Institute for Veterans and Military Families (IVMF) at over 30 installations in seven countries.

Prior service veterans, National Guard & Reserve members have access to the Boots to Business Reboot Training Program conducted off installation in communities across the United States.

The Boots to Business Reboot Training Program is conducted in-person and virtually to ensure access is available to all communities.

Twenty-eight VBOCs, located in twenty-five states and covering all states and territories, are conducting daily training and counseling to veteran and military spouse entrepreneurs looking to start and grow a business.

VBOCs regularly communicate and collaborate with local community partners and stakeholders to connect with the veteran and military spouse communities and share info on SBA programs and resources. These partners include local/state/federal government agencies, military installations, National Guard & Reserve components, veteran service organizations, chambers of commerce, lenders, economic development organizations, non-profits, SBA District Offices and SBA Resource Partners.

QUESTION 116:

How has the SBA's increased outreach efforts directly resulted in an increase in Small Disadvantaged Businesses participation in government contracting?

The latest SBA scorecard shows that the number of Small Disadvantaged Businesses participating in government contracting increased in FY23. This increase counters the general—and continuing trend—of declining small-business participation overall. The SDB increase indicates that SBA's policy interventions and outreach efforts have helped to bring back SDBs into the government marketplace.

For instance, in Multiple Award Contracting (MAC) acquisitions, Procurement Center Representatives (PCRs) are influencing more SDB involvement in government contracting by directly engaging with agencies to assist them in performing improved market research for SDB and other socioeconomic sources. On January 25, 2024, the Office of Management and Budget (OMB) issued a memo to Chief Acquisition Officers and Senior Procurement Executives that encourages procuring agencies to apply the small business rule of two to orders under multiple-award contracts (MACs). The flexibility provided to PCRs to enforce this rule has precipitated more Partial Set-Asides and Reserves in contracts such as these. Additionally, more emphasis has been placed on early involvement of PCRs in agency source selection and Early Strategy and Information Sessions (ESIS) to identify more opportunities for SDBs in government contracting.

To maximize utilization of SDBs, the SBA and GSA collaborated on a joint effort and established the new 8(a) MAS Pool to help SDBs participating in the 8(a) Program gain access to more federal contracts in GSA's Multiple Award Schedule (MAS) Program. This new pool makes it easier for procurement officials to locate and contract with SDBs across all industries.

The SBA launched an enhanced training program, "Empower to Grow," to strengthen Small Disadvantaged Businesses' contract readiness. This revitalization of the popular 7(j) Management and Technical Assistance program includes improved coaching, training, and technology tools to get more disadvantaged businesses contract-ready and build a diversified

supplier base. In FY2023, small businesses participating in the program saw a contract win rate of 60% and self-reported annual revenue growth of 45% on average.

The SBA announced several reforms in small business contracting, including:

- Directing all agencies to track and evaluate the performance of each of the socioeconomic small business contracting goals in all performance plans for Senior Executive Service (SES) managers that oversee the acquisition workforce or agency programs supported by contractors.
- Changing the government's approach to consolidating federal contracts by reforming the Category Management program.
- Creating special contract procedures for 8(a) participants using the GSA's Multiple Award Schedule. The new procedures increase contracting opportunities for 8(a)-certified SDBs to ensure more equitable access to federal contracting dollars.
- Reviewing and revising size standards to allow 78,000 additional small businesses to qualify for SBA's programs.

QUESTION 117:

How is the SBA measuring its outreach efforts?

Each of the Area Office Procurement Center Representatives (PCRs) maintain this data, along with acquisition reviews within SBA's internal tracking system, SBCX. Additionally, since FY 2020, SBA has published federal contracting data disaggregated by race/ethnicity. Maintaining and publishing this disaggregated data allows the agency to measure the effect of outreach to specific communities.

The SBA lists leveraging technology to modernize the application process as a way that the agency plans on reducing the paperwork burden. Broadband access is already a difficulty that many rural small business owners face.

QUESTION 118:

How will the SBA ensure that modernizing the application process through digitalization does not result in the exclusion of rural businesses that have limited broadband access from government contracting opportunities?

Limited broadband access should not be a barrier to entry for rural businesses to obtain government contracting opportunities. SBA's Office of Government Contracting and Business Development set-aside contracting programs' application processes have been "digitized" for over 5 years. SBA's Office of Rural Affairs conducts extensive outreach efforts to ensure rural business have access to government contracting opportunities and is partnering with USDA on rural government contracting opportunities with one event planned in West Virginia in September, among others.

QUESTION 119:

The SBA Equity Plan outlines proposed metrics for procurement. Where is the SBA in the process of collecting this data?

SBA publishes agency-by-agency data on SDB spending annual through the SBA scorecard, available at sba.gov/scorecard. The latest SBA Small Business Scorecard shows that the number of Small Disadvantaged Businesses participating in government contracting increased in FY23. This increase counters the trend—of declining small-business participation overall. The SDB increase indicates that SBA's policy interventions and outreach efforts have helped to bring back SDBs into the government marketplace.

SBA's Sexual Orientation and Gender Identity Data Action Plan

On page 35 of the FY25 Congressional Budget Justification, SBA stated that it *"has developed a Sexual Orientation and Gender Identity (SOGI) Data Action Plan that contributes to the SOGI Federal Evidence Agenda and National Strategy on Gender Equity and Equality."* Other agencies, such as the Department of Health and Human Services and the Department of Housing and Urban Development, have made their SOGI data action plans publicly available.

QUESTION 120:

Is SBA's SOGI Data Action Plan publicly available?

The SOGI Data Action Plan is not publicly available.

QUESTION 121:

If not, does the agency plan to make it public?

At this time, SBA does not plan to make the SOGI Data Action Plan publicly available.

An SBA employee was part of the National Science and Technology Council's Subcommittee on Equitable Data, which was responsible for preparing the Federal Evidence Agenda and National Strategy on Gender Equity and Equality.

QUESTION 122:

What were SBA's specific contributions to this document?

SBA participated in the interagency forum and the production of the final document.

Executive Order 14075 directs agency heads to include in their annual budget submission a request for any necessary funding increase to support improved SOGI data practices.

QUESTION 123:

To date, how much has SBA spent on SOGI data practices? Can you please list the specific steps taken, including dollar cost and Full Time Employees dedicated to it?

One staff member participated in the SOGI Working Group and developed the plan. It was approximately .10 FTE as this was an additional duty. The cost for this .10 FTE is approximately \$11,200.

SBA's Implementation of Executive Order 14019

On March 19th, 2024, the SBA announced its MOU on voter registration with Michigan Department of State (MDOS) as part of its initiatives under Executive Order 14019.

QUESTION 124:

Pursuant to Section 3 of Executive Order 14019, what activities did the SBA include in its strategic plan to "promote voter registration and voter participation" submitted to the Assistant to the President for Domestic Policy? Can you please provide the original strategic plan developed and submitted by the Agency?

QUESTION 125:

What activities did SBA and MDOS agree to pursue under the MOU announced on March 19th, 2024? Can you please provide the full MOU document agreed to by the SBA and MDOS?

QUESTION 126:

For what reasons did the SBA establish its first voter registration activities under Executive Order 14019 in Michigan as opposed to other states? Can you please provide a full account of the analysis performed by the Agency to inform this decision, including a list of all metrics or other factors considered?

QUESTION 127:

Did Michigan Secretary of State Jocelyn Benson or any other employee/official of the Michigan Department of State request or otherwise initiate contact with SBA to establish an MOU on voter registration activities in Michigan?

Answers to Questions 124-127:

On March 19, 2024, SBA announced a new memorandum of understanding (MOU) between the SBA and the Michigan Department of State (MDOS) to promote civic engagement and voter registration in Michigan. As part of the MOU, the MDOS will create a unique URL for the SBA

to use to drive online visitors to register to vote. The SBA's Michigan District Office may also allow MDOS officials to conduct in-person voter registration at the SBA's small business outreach events.

SBA's Review Process on Funding Circle SBLC License

In your hearing remarks, you stated that you "can't speak to the application review, as that was done by (your team)" when I asked if the SBA was aware that Funding Circle had a prior investment from China-based CreditEase when the agency approved its SBLC license.

QUESTION 128:

Was your team aware of prior investment by CreditEase in Funding Circle when it approved the license?

In performing our due diligence of all SBLC applicants we examined the management team, resumes for key personnel, and ownership structure at the time of the application. Prior owners who previously divested were not reviewed, as they were not relevant to the business activity going forward. The SBLC Due Diligence Committee confirmed that Funding Circle was wholly owned by a publicly traded company (on the London stock exchange) at the time of their application.

QUESTION 129:

If so, did the SBA evaluate whether CreditEase, its subsidiaries, including CreditEase Fintech Investment Fund, and any of these firms' personnel maintain ties to the Chinese Communist Party or sanctioned Chinese companies? How was this evaluation conducted?

In performing our due diligence of all SBLC applicants we examined the management team, resumes for key personnel, and ownership structure at the time of the application. Prior owners who previously divested were not reviewed, as they were not relevant to the business activity going forward. The SBLC Due Diligence Committee confirmed that Funding Circle was wholly owned by a publicly traded company (on the London stock exchange) at the time of their application.

SBA's Review Process on SBLC License Applicants and Buyers

In your hearing remarks, you stated that for all SBLC license applications the SBA "fully evaluate(s) their safety and soundness; mak(ing) sure that we're evaluating their performance in their loan portfolio in particular, in terms of defaults and performance."

You also stated that “Every time a(n) (SBLC) license is sold it is reviewed by the SBA team for re-approval...the SBA could deny, as it has in the past denied an application for the sale of an SBLC license to a specific entity.”

QUESTION 130:

Can you please provide my team with the standard operating procedure or other equivalent record that documents the procedure for review of potential SBLC licensees as conducted by your team?

The SBLC application process and applicant requirements are outlined in 88 FR 32623. The application process for an SBLC change of ownership or control is stated in 13 CFR 120.466. The process is broken into two phases: (a) the Lender Assessment Plan (requirements detailed in SBA Form 2498); and (b) the Application (requirements detailed in SBA Form 2499). SBA’s application evaluation process is described in 13 CFR 120.467. Change of control requirements are described in 13 CFR 120.468.

QUESTION 131:

How does the SBA evaluate foreign ownership, control or influence in SBLC license applications and in license transfers?

Any change of control or ownership of an SBA Supervised Lender must comply with all SBA Loan Program Requirements (as defined in 13 CFR 120.10) and, pursuant to 13 CFR 120.468(b), is subject to the approval of any state or Federal chartering, licensing, or other regulatory authority.

Notably, this is not relevant to the recent Funding Circle US sale, as effective June 24, 2024, Funding Circle voluntarily surrendered its SBLC license.

International business structures are common both among SBLCs and banks. For example, last year Montreal-based BMO purchased Bank of the West, and both are SBA lenders. Also in 2023, the founders of Velocity SBA, an existing SBLC lender, sold a majority of their interest to the Cranemere Group Limited, a UK-based financial services company. Prior to approval, this transaction was carefully vetted and analyzed by SBA to ensure adequate program oversight and to protect American taxpayer dollars.

QUESTION 132:

At what stage in the process of a current SBLC licensee selling their SBLC license does the SBA conduct a review of potential buyers?

Pursuant to 13 CFR 120.468(c) an applicant (the entity seeking to obtain ownership or control of an SBLC license) must submit a Lender Assessment Plan (LAP). Instructions for preparing a LAP are detailed in SBA Form 2498. SBA does not, as a matter of practice, perform reviews of

multiple potential buyers in such a process. It is the responsibility of the SBLC licensee to vet candidates relative to SBA Supervised Lender requirements and to reach some type of non-binding letter of intent with a potential transferee prior to initiating the change of ownership process.

QUESTION 133:

Is there any foreign ownership, control or influence that would prohibit a firm from receiving an SBLC license?

Foreign ownership, control, or influence is not a subject explicitly addressed in 13 CFR Part 120. However, any change of control or ownership of an SBA Supervised Lender must comply with all SBA Loan Program Requirements (as defined in 13 CFR 120.10) and, pursuant to 13 CFR 120.468(b), is subject to the approval of any state or Federal chartering, licensing, or other regulatory authority.

QUESTION 134:

On how many occasions and for what reasons has the SBA previously denied the application for or sale of an SBLC license to a specific entity?

In August 2022 SBA's Office of Financial Assistance issued a decision to decline an application for a change of ownership of an SBLC. SBA cited that during the LAP review process, SBA received notification of: (1) legal action brought against the SBLC and current owners related to the Paycheck Protection Program (PPP); and (2) separate legal action brought against the applicant and its parent company by the same plaintiff named in the SBLC litigation related to PPP activities; and (3) notice from the SBLC regarding an investigation initiated by the U.S. Department of Justice regarding the SBLC's activities in the Paycheck Protection Program.

Questions from:

Senator Cantwell

Rural Disaster Relief

My home state of Washington has been hit repeatedly by wildfires, floods and other environmental disasters. Last year, 165,365 acres burned because of wildfires in Washington state. These fires have forced entire towns to evacuate, worsened the air quality across the state, and damaged homes and businesses.

One of the many serious aftereffects of natural disasters is that they force small businesses to shutter and families to move from the community. That's especially true in rural areas, where people may not know about federal resources and may not want to take on more debt. So many people don't return, putting the communities at risk of disappearing.

In your testimony, you described the progress that SBA has made on this issue, including responding to 472 disasters in 2023. I was glad to hear that you are implementing Senator Risch's legislation to enable SBA to declare a disaster for the purpose of providing assistance in rural areas.

But we must do more. Senator Risch and I introduced the MALDEN Act earlier this year to expedite FEMA resources in the aftermath of disasters in rural areas. We heard repeatedly from constituents that after they had experienced a disaster, they couldn't afford to take on additional debt, even at a low interest. Often, these are low-income communities. And usually, for years after a disaster, their level of income is suppressed because the community has lost many residents. So they don't want to take on debt.

I'm currently working on a proposal to create a pilot program for the SBA to provide zero-interest, deferred payment loans to borrowers in rural communities where a disaster has been declared.

My goal is to ensure that business owners and families come back to their communities to rebuild after disasters, instead of relocating or, in the case of a small business, giving up their businesses entirely. As the GAO recently reported, SBA needs to recognize that rural communities experience disasters differently than urban ones, and they need specialized resources.

QUESTION 1:

Would you be willing to work with me on this proposal?

Yes. Please reach out to SBA Office of Congressional and Legislative Affairs.

QUESTION 2:

What else is SBA doing to better support rural small business owners and individuals after devastating disasters?

SBA is working with USDA/FSA, NOAA, and HUD to formalize our relationship in the disaster arena and develop a rural resource guide that will clearly synch our disaster programs, which will provide a better understanding of our services to our customers who may qualify for assistance from multiple agencies.

SBA is in the process of purchasing 2 Mobile Recovery Vehicles (MRV). These are all-weather self-sustainable Recreational Vehicles upfitted to provide onsite customer service in the most austere conditions. We are also in the process of purchasing 2 upfitted splinter vans, called mini-MRV, to be used in conjunction with the PLOCs to provide onsite customer service in all types of weather and under austere conditions. These assets will allow us to provide direct customer service to our rural communities no matter the location or conditions.

Deployed Regional Recovery Coordinators within the regions to establish partnerships and coordinate with locals to facilitate disaster operations. They are charged with building synergy between SBA, local/state government, resource partners and other stakeholders to synchronize the organization's programs and assets to effectively respond to disaster events with a keen focus on making small businesses more resilient. The crux of this pre-disaster coordination is the development of an Operational Playbook. Operational Playbook: A written plan that is jointly developed by the state, SBA, resource partners and other key stakeholders that synchronizes the organization's programs and assets to effectively respond to disaster events with a keen focus on making small businesses in the State more resilient. In support of Whole Community efforts, coordinate with key entities in local and state government, resource partners, private nonprofit organizations and SBA district offices to develop a "state specific" pre-disaster playbook that promotes synergy and unity of effort in assisting businesses to recover from disasters and facilitate long term recovery and resiliency. We will accomplish this through establishing operational processes and procedures, deliberate planning and outreach coordination.

Access to Capital for Entrepreneurs in the Innovation Economy

As Administrator, I'm sure you see the value of small business and entrepreneurship to innovation and the innovation economy. Throughout your testimony you observed the importance of supporting ecosystems which include small businesses, as well as recognizing small businesses as innovators. The CHIPS and Science Act supercharges America's investment in innovation.

It also promises new resources and policies to allow historically Black colleges and universities and other minority-serving institutions to participate equitably and genuinely in this research funding, and in the entrepreneurship and economic opportunity it can

create. I believe that this innovation economy can be strengthened by inclusivity and greater diversity.

In my state of Washington, the Department of Commerce awarded a Tech Hub award to establish an aerospace advanced materials Tech Hub. When Congress envisioned the Tech Hubs, it sought to establish the ecosystems to support and develop advanced technologies – academic institutions and the private sector – large and small businesses, all coalescing around a common purpose.

The SBA can participate in the support of this objective through its lending and capital programs including those discussed at the hearing. Even the smallest loans can contribute to the funding for a new idea or for a new company to contribute to the innovation supply chain.

Innovative ideas can come from anywhere, anybody. And with CHIPS and Science, we envision technology hubs to be inclusive at all levels of contribution, including early-stage businesses that have something to offer but may not be able to get conventional loans.

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are both great programs, but I'd like to see if there is more to do support the objectives of CHIPS and Science and align the objectives of these programs.

QUESTION 3:

Can you share your thoughts on what more SBA could do to target existing programs such as the SBIR and STTR to improve access to capital for entrepreneurs and other small businesses helping grow these regional Tech Hubs?

I share your enthusiasm with the promise the CHIPS and Science Act and the Tech Hubs initiative have for our innovative small businesses. SBA has worked with the Economic Development Administration (EDA) and has committed to providing technical assistance and engagement for both our Small Business Investment Company (SBIC) and to facilitate and strengthen engagement through the Small Business Innovation Research (SBIR) programs. The SBA views this as a catalyzing opportunity and want to ensure our innovation capital programs are available to small businesses and entrepreneurs.

QUESTION 4:

What more should we as legislators think about doing for high-tech innovators to improve access to capital through the SBA? How would the funding requests in the President's Fiscal Year 2025 budget help us accomplish this?

SBA has leveraged technology to help even more businesses access capital they need to grow their business. Specifically, we have unveiled the MySBA platform and Unified Lending Platform. The MySBA platform is a web-based platform where SBA borrowers can view loan

details, make payments, and access statements for COVID-19 EIDL, Disaster, or SBA-serviced 7(a) loans. The unified lending platform, or Lender Match, provides Americans seeking funding to start and grow their businesses with a simple, online tool that will more effectively match them with the SBA's competitive lending products and additional offerings from a trusted network of banks and private lenders.

STEP Program

I understand that the President's Fiscal Year 2025 budget funds the STEP program at \$19.5 million. That's a cut down from the \$20 million the program received in Fiscal Year 2023, and likely in Fiscal Year 2024. STEP has been shown to have a tremendous return on investment, with every dollar appropriated leading to \$30 in new export activity according to SBA's most recent annual program report.

I am proud that Washington state has routinely been one of the highest performing states in the program. In the last two cycles, Washington state received a total of \$2.4 million to serve hundreds of small businesses. Washington is a big exporting state, and we want our small businesses to grow into exporters. STEP has shown it lifts our local economy. That's why it is so surprising to see a cut proposed for the program.

QUESTION 5:

Can you tell us why the administration believes it should receive less, rather than more, funding from Congress given its record of success?

SBA is a strong supporter of the STEP program and agrees with you about the effectiveness of the program. We look forward to working with your office and Congress to prioritize the best investments of federal resources for small businesses.

Questions from:

Senator Cardin

SBA 8(a) Loan Program

Across the federal government, we have seen legal attacks against federal equity programs and agencies, including the SBA's 8(a) contracting program, the Minority Business Development Agency, and the Department of Transportation's Disadvantaged Business Enterprise program.

To say that I am disappointed by the decisions in the 8(a) and MBDA cases is an understatement. These programs provide tailored programming for minority communities to address the impacts of the discrimination that they face. We cannot allow these court rulings to reverse the progress we have made through these programs.

QUESTION 1:

Administrator Guzman, do you believe minority businesses are playing on an even playing field today?

Equity is rooted in everything we do at SBA and we know that there is more we can do to ensure that every American has an equal opportunity to compete and succeed.

Beginning with FY 2020, SBA has released disaggregated Contracting Data annually. Four years of data are publicly available that show the progress that the Biden-Harris Administration has made in creating equitable contracting practices. SBA continues to take actions to level the playing field and create jobs and support economic opportunity in historically underserved communities.

Black, Hispanic, and minority-owned businesses still face significant disparities in federal contracting, even though the 8(a) Program gives contracting officers a quick and simplified process to access many of these firms with non-competitive contracts under certain dollar thresholds.

FY20-FY22 Disaggregated Data Comparison – Percent of All Contract Dollars to Small Business Category

FY	2020	2021	2022
Category	Percent %	Percent %	Percent %
Asian American	1.23%	1.23%	1.22%
Subcontinent Asian American	1.55%	1.68%	1.67%
Black American	1.67%	1.60%	1.55%
Hispanic American	1.78%	1.81%	1.73%
Native American	2.69%	3.07%	3.09%
Other Minority	0.48%	0.40%	0.36%

QUESTION 2:

Do you think historic discrimination affects minority businesses' ability to be successful?

Since FY 2020, SBA has published federal contracting data disaggregated by race/ethnicity. Maintaining and publishing this disaggregated data allows the agency to measure the effect of outreach to specific communities. Additionally, in 2021, SBA cooperated with the Council of Economic Advisers to show how increasing contracting spend among historically underprivileged communities could close the racial wealth gap. The analysis is available at this White House statement: [The Benefits of Increased Equity in Federal Contracting](#).

Historic and ongoing bias still exists and has negative impacts on small disadvantaged businesses in government contracting. To address and mitigate bias, and to make improvements to SBA's 8(a) program, the agency continues to update policies and programs to remove and reduce barriers to government contracting opportunities. The SBA's 8(a) Program is one of our most effective tools in offering opportunities for these firms to perform on government contracts and create job opportunities for their communities. The 8(a) Program opens the door for a small percentage of firms to win government contracts, and this small percentage is continually challenged and attacked at multiple levels.

Given that the SBA was the first agency to receive a ruling in the minority business program space, I am interested in how the administration is working together to address these attacks as well as in the new process of determining eligibility for the 8(a) program.

QUESTION 3:

Administrator Guzman, how is the SBA coordinating with other agencies like the Minority Business Development Agency and the Department of Transportation in responding and reacting to these legal attacks?

This Administration is committed to protecting important programs Congress has created to ensure greater access to government contracting and reducing underrepresentation in SBA programs of minorities, women and persons with disabilities, among other underserved groups.

The SBA has proactively engaged with the Office of Federal Procurement Policy, Domestic Policy Council, and FAR Council stakeholder groups to communicate continued use of the 8(a) Program amidst legal challenges. The SBA communicates continued use of the 8(a) Program during the Ultima injunction by making available frequently asked questions (FAQs) posted to our MAX.gov SharePoint site: [SBA OPPL Collaboration Page - Small Business Administration - Community \(connect.gov\)](#). The FAQs are intended to help the federal workforce as it implements SBA's guidance on the impact of the district court's July 19, 2023 decision. The program office meets monthly with Directors, Office of Small and Disadvantaged Business Utilization (OSDBU) Executives and delivered 8(a) education campaigns across the federal and 24 CFO Act agencies to ensure continued compliance.

QUESTION 4:

Administrator Guzman, could you provide an update as to how the 8(a) narrative process is going for the agency as well as for our underserved small businesses who might find the process invasive?

The process is invasive, and it is often painful to relive instances of bias. However, we committed to keeping the statements private and this gave the business owners the comfort needed. The SBA has reviewed or recertified over 4,000 current 8(a) participants through a process consistent with the court's order. The SBA reopened the 8(a) application to new participants – ensuring a vast, talented pool of vendors are available to federal agencies.

SBA reopened the 8(a) application for new applicants on September 29, 2023. To comply with the court's order SBA updated the application by adding a plain language fillable questionnaire for applicants to identify social disadvantage. Firms continue to have the option to prepare a social disadvantage narrative and upload it directly to the Certify system. Potential applicants are encouraged to access the Certify Knowledge Base to view SBAs new training webinar tutorials and information guides for submitting a successful narrative in the application. The SBA trains resource partner networks to assist applicants with the application process. The Office of Business Development holds monthly "Straight Talk" conference calls with the public to answer questions about the application process. The SBA has affirmatively determined that over 3,413 8(a) firms meet social disadvantage requirements and remain eligible in the program.

SBDC Programmatic Budget

I would like to commend the work that we were able to do together in expanding SBA resource partners on Historically Black Colleges and Universities and Minority Serving Institutions under this administration, including most recently opening a Women's Business Center at Bowie Statue University.

In the administration's budget justification, I was pleased to see the SBA highlight the impact and expansion of SBDCs at Historically Black Colleges and Universities and Minority Serving Institutions. In the performance plan, it states that the agency will increase services, partnerships, and outreach in underserved communities through these institutions.

However, the SBA's budget requests a \$19 million cut to the SBDC program.

QUESTION 5:

Administrator Guzman, at a time when we should be expanding entrepreneurial development resources in underserved communities, how do you expect SBDCs to further their outreach with less funding?

We continue to support the valuable work of the SBDC network and look forward to working with Congress to prioritize the investments that would help ensure SBA reaches even more small businesses.

Questions from:

Senator Hirono

Native Businesses

I have appreciated your willingness to visit Hawaii and meet with local businesses, including businesses owned by Native Hawaiian Organizations (NHOs) that participate in the U.S. Small Business Administration's (SBA) 8(a) Business Development Program. Like tribally-owned businesses and businesses owned by Alaska Native Corporations, businesses owned by NHOs are able to participate in the 8(a) Program under special terms because they support Native communities. This program was created by Congress because of the United States' trust responsibility to American Indian, Alaska Native, and Native Hawaiian communities.

Back in August 2022, you and I had an opportunity to sit down with Native Hawaiian Organization (NHO)-owned businesses to hear about how they are growing the economy, creating jobs, and giving back to the community through their support for health, education, and other programs that support Native Hawaiians.

It is clear that they are making important contributions.

QUESTION 1:

Could you discuss the importance of the 8(a) Business Development Program for Native businesses? How are these businesses giving back to their communities?

The 8(a) Business Development Program is a 9-year program created to assist firms owned and controlled by socially and economically disadvantaged individuals. The purpose of the program is to help eligible small disadvantaged businesses compete in the American economy through business development. As part of their participation in the program, 8(a) participants must reinvest a portion of their proceeds in their communities.

QUESTION 2:

Why is it so important that we continue to support this program?

This program was created to support socially and economically disadvantaged small businesses. The Biden-Harris Administration is committed to protecting important programs that Congress has created to ensure greater access to government contracting. Additionally, SBA remains committed to ensuring equitable outcomes and an equal opportunity exists for all Americans to compete and succeed.

Lahaina Wildfires

Last year, on August 8, 2024, the community of Lahaina experienced devastating wildfires that destroyed the entire town and claimed more than 100 lives. President Biden responded swiftly – visiting Lahaina less than two weeks later, on August 21, and committing to “making sure the community has everything... the federal government can offer to heal and rebuild as fast as possible.”

I appreciated your willingness to visit Lahaina shortly after the wildfires. I have also appreciated your willingness to work with me to make sure those impacted by the wildfires have the necessary resources to recover. To date, SBA has approved more than \$293.3 million in disaster loans for those impacted.

Despite this impressive response, the path to recovery for will be a long one for Lahaina.

I would ask for your continued commitment to making sure the community has what it needs to recover.

SBA maintains its commitment to ensure that the community of Lahaina impacted by the wildfires continues to receive the support needed.

District Offices

SBA District Offices, like the Hawaii District Office based in Honolulu, provide important services for constituents in our states. In many cases, they are the face of the agency in the community. But too often we have heard about district offices being stretched too thin – being expected to provide more services with less funding. So it is important to me that we prioritize funding for these offices.

It especially important that we prioritize funding for offices – like those in Hawaii and Alaska – that serve geographically diverse areas. The Hawaii District Office, for example, is expected to serve not only Oahu and our Neighbor Islands, but also Guam, American Samoa, Micronesia, the Marshall Islands, the Northern Mariana Islands, and Palau.

I would ask for your commitment to making sure district offices that serve geographically diverse areas have what they need to serve businesses effectively.

SBA district offices work to maximize the available budget allocations to serve their entire districts.

Small Business Development Centers

Like SBA district offices, Small Business Development Centers (SBDCs) are often the first stop for businessowners who need help starting or growing their businesses. Hawaii, like other states, has a strong network of SBDCs – through the Hawaii SBDC Network –

comprised of business centers on Kauai, Oahu, Maui, and Hawaii Island. These business centers have been an important resource for the local community, especially during times of disaster. The Maui business center, for example, has provided much-needed advice to businesses working to recover from the Lahaina wildfires. It has been a trusted partner in the community.

I was very concerned, then, to see the Biden administration reduce funding for the SBDC program from around \$140 million in FY23 and FY24 to \$121 million in FY25 – a \$19 million decrease.

I realize the administration needs to balance its budget priorities every year, but I would hope that such a well-established program, with a proven track-record of success, would continue to be prioritized.

I will be pushing for strong funding for SBDCs in FY25.

SBA looks forward to working with you to continue to support our strong our resource partner network.

State Trade Expansion Program

Last month, I had an opportunity to host the U.S. Trade Representative, Ambassador Katherine Tai, in Hawaii. While Ambassador Tai was in the state, she and I held a small business roundtable where we heard from local businesses about the importance of international trade, and how SBA programs like the State Trade Expansion Program (STEP) have contributed to their success in finding new markets and customers – including through international trade shows where businesses have been able to showcase their products in Korea and Japan. It has been an effective program.

I was a little disappointed, then, to see the Biden administration reduce funding for the program from around \$20 million in FY23 and FY24 to \$19.5 million in FY25.

I will be pushing for strong funding for STEP in FY25, and would ask for your commitment to making sure the program continues to be effective for businesses.

Thank you for your support for the STEP program. The agency works to support businesses through a diverse set of entrepreneurial programs beyond just the STEP program in their exporting journey. SBA looks forward to working with you to strengthen the STEP program so that small businesses are equipped with the tools and resources necessary to expand operations and export.

Questions from:

Senator Hickenlooper

SBIC

Senator Risch and I introduced the MicroCap Small Business Investing Act to break down barriers to SBA loans by bringing managers that are better equipped to work with underserved populations into the SBIC program.

The SBA's new SBIC Accrual Debentures are also designed to drive capital to the entrepreneurs that need it the most.

QUESTION 1:

Since less than 10% of venture capital goes to entrepreneurs living outside major metropolitan areas, how can Congress further support the expansion of the SBIC program to get capital where it's needed most?

The Small Business Investment Company (SBIC) Program has not offered a government-guaranteed debenture loan instrument appropriate for venture capital funds in several years. As a result, the majority of SBIC Program government-guaranteed loans for the last 15+ years have not supported venture capital investment. SBIC Program dollars have predominantly been committed to mezzanine debt and private debt transactions which is typically geared towards financing change of control transactions, restructuring and refinancing or mature cash flow positive businesses.

SBA implemented regulatory reforms in August 2023 to enable the SBIC Program to provide government-guaranteed debenture loans to small business investment companies that solely provide equity capital, not debt only equity, (which includes Venture Capital, Expansion and Growth Equity, and Fund-of-Funds equity investments) to small business concerns to finance their start, growth, expansion, and modernization. At the heart of the reforms was the establishment of a second government-guaranteed debenture loan, the "Accrual Debenture", which is aligned to the cash flows of equity-oriented small business investment companies (Venture Capital, Expansion and Growth Equity, and Fund-of-Funds equity investments). The establishment of this second Debenture instrument, the Accrual Debenture, is the first step toward SBIC Program getting venture capital to American small businesses.

We are happy to brief your staff or have further discussion on this topic.

Microloan intermediaries

The SBA's Microloan program to help the smallest of the small businesses was able to grow to \$101 million with only a \$6 million subsidy – a huge accomplishment.

QUESTION 2:

How does the SBA plan to further grow the Microloan program to \$110 million while cutting its subsidy by half?

The Economic Aid Act in 2021 provided a higher authorization level and corresponding appropriation to support \$110M in lending annually through FY 2025. SBA has experienced less demand than the \$110M authorized level. Due to the available Microloan subsidy carryover balances, the 2025 Budget proposed a reduction in new budget authority in order to utilize the remaining carryover balances. SBA expects that in FY25 estimated subsidy carryover balances plus the \$3 million appropriations request will support the full \$110 million lending authority for the program.

QUESTION 3:

What else can Congress do to support the program's work?

There are several steps Congress can take to support the Microloan program. Relaxing the 1/55th rule that limits new loans to intermediaries during the first 6-months of each FY would help ensure small businesses across the country can receive funding when they need it, rather than waiting for an arbitrary date to pass for the funding to come available for them. Additionally, the funding requested in the 2025 Budget for lending, technical assistance, and technology enhancements would further support the program. SBA also plans to update the microloan technology when it transitions to the Unified Lending Platform, which will enable automation that will increase operational efficiency – creating more data driven solutions and enabling us to provide better data to our Microloan partners to allow for better fundraising.

Questions from:

Senator Risch

In the SBA's FY 25 congressional budget justification for the State Trade Expansion Program, the SBA claims that the agency's use of its A-STEP grant reporting system "made program improvements to assist grant recipients in making use of funds." However, I have heard the opposite. The Idaho Department of Commerce, which manages Idaho's grant, has stated that the A-STEP system requires grantees to manually enter duplicative information that increases the potential margin of error. In addition, it does not consistently work, routinely timing out and losing information state staff have taken hours to enter. It seems this program only makes the already immense administrative burden of STEP even worse.

QUESTION 1:

Why is the agency claiming that A-STEP is an improvement when it is doing the exact opposite?

SBA developed the A-STEP system to digitize a cumbersome manual grant reporting process. This was necessary for the SBA to be able to report on metrics across the entire STEP program, rather than the previous manual process that was extremely time-intensive and caused data errors. The A-STEP system is a central space for grantees to upload and input data and it allows SBA to answer program inquiries quickly. SBA piloted A-STEP in 2021 with 29 states. In 2022 and 2023, the SBA gathered user feedback via a survey and informal deep dives and used that feedback to make system improvements and to alleviate pain points. In 2023, the SBA held five training sessions to assist states with using A-STEP.

QUESTION 2:

Does SBA intend to make any additional improvements or add functionality, like uploading of compliance data, to A-STEP to assist states in complying?

The administrative burden for STEP is already immense and only made worse by the constantly changing compliance requirements that are dictated at the whim of an SBA bureaucrat overseeing the state's participation. When grantees ask to work with the SBA to resolve issues or suggest solutions to simplify compliance requirements, the SBA either ignores their concerns or refuses to acknowledge them. Compliance has become such a burden my state may no longer be able to administer the STEP program because of the agency's burdensome requirements.

QUESTION 3:

Why does the agency continue to stonewall and ignore the needs of grantees when they voice their concerns?

SBA regularly holds meetings with our stakeholders and solicits feedback on how to improve program operations. The STEP Program Director holds a monthly STEP Director call with all grantees; this call is a forum for states to voice any concerns and get answers. We also plan to meet one on one with recipients and stakeholders to hear more feedback on the system.

QUESTION 4:

Isn't the agency at all concerned that states may no longer pursue the STEP grant because of its tremendous and ever-changing maze of compliance requirements?

The SBA holds numerous training sessions for our state partners to help them understand the grant requirements, and the SBA STEP Program Managers are always available to assist with grant compliance questions. Each year, the SBA holds three grant orientation sessions for the states that provide training on reporting requirements and overall grants management. The SBA also provides three A-STEP trainings, held before the first quarterly reports are submitted, to ensure that all grantees understand the system and how to enter and upload data. Each quarter, SBA STEP program managers hold a call with each individual grantee to answer questions.

Last year I asked for your justification as to why the agency was supporting cuts to resource partners like Small Business Development Centers. This year, your agency is pushing for similar cuts in order to advance equity initiatives through other avenues, such as the Community Navigator Program. According to our local SBDC, the proposed cuts would mean a decrease of \$105k in funding and would negatively impact 321 Idaho businesses, reducing 123 jobs created, \$14m in revenue gains, \$8m in capital obtained, and 17 fewer new business starts. The SBA's own performance table notes a consistent increase in SBDC services provided to clients since FY20.

QUESTION 5:

Why does the SBA continue to pursue cuts to SBDCs given their successful track record?

QUESTION 6:

Why does the SBA continue to attempt to divert funds to unproven pilot programs?

Answers to Questions 5-6:

We support the valuable work of the SBDC network and look forward to working with Congress to prioritize the investments that would help ensure SBA reaches even more small businesses.

I am deeply concerned about the SBA's proposal of a 7(a) direct lending program. The SBA claims that the intent is to support underserved communities. However, the agency's track record

of implementing direct loans, including the COVID-19 EIDL program which was mired by fraud and abuse, demonstrates that the agency lacks the capacity or capability to effectively manage such a program. I believe that a direct lending program would exacerbate these issues and would ultimately require taxpayers to foot the bill. In addition, the government would inevitably crowd out the private sector, ultimately leaving small businesses without adequate access to capital.

QUESTION 7:

Where does the SBA intend to get the money to support this program?

QUESTION 8:

Wouldn't you agree that a direct lending program would crowd out private sector capital?

QUESTION 9:

Given the SBA's track record, aren't you concerned that the SBA lacks the capacity to handle a direct lending program?

Answers to Questions 7-9:

A longstanding feature of Section 7(a) of the Small Business Act is that it authorizes SBA to make direct general business loans to creditworthy borrowers that are declined by banks for an SBA-guaranteed loan. In order to fulfill that authorization and continue to fill gaps in the marketplace, the President's Budget proposes an adjustment to the interest rate SBA may charge on direct loans. Currently, SBA may charge one percentage point above the 5-year Treasury. Allowing SBA to charge 6 points over the 5-year would allow SBA to run a direct loan program with rates that are comparable to those offered by SBA guaranteed lenders and require no appropriation from Congress.

Questions from:

Senator Scott

Ms. Guzman,

As you know, the Small Business Administration has already tried and failed to implement a 7(a) direct lending program. The Clinton Administration put an end to this program after finding the subsidy rate was 10 to 15 times that of guaranteed loans, creating an unnecessary drain on taxpayer dollars when market-based alternatives not only exist, but also outperform that of SBA direct lending.

When I hear from small businesses, I hear about the years of crippling inflation and high interest rates. I hear about the concerns of rising crime rates and stolen product driving down their profit margins. I hear of labor concerns and supply chain constraints. I hear of small businesses worried about the data collection efforts underway at the SBA and worries about the safety of this data.

What I do not hear is a need for a big government lending program. This leads me to ask:

QUESTION 1:

With specificity, what evidence has the SBA looked at and what feedback has the agency received from small businesses that suggest a 7(a) direct lending program is actually necessary?

It remains too challenging for many small businesses to access capital. For example, the Federal Reserve's Small Business Credit Survey indicates over 50% of small businesses seek loans of less than \$100,000, but only one-third of the smallest businesses – those with \$100,000 or less in annual revenue – report receiving the full funding they request from banks.

QUESTION 2:

You have testified that the requested 7(a) direct lending program would require no subsidy if Congress chooses to increase the statutory cap from 1% to 6%. If Congress refuses to raise that cap, do you commit that the SBA will not seek to implement a new direct lending program?

Administrator Guzman testified that SBA is interested in starting a direct loan program if the agency is given the tools to do so. We have requested support from Congress.

QUESTION 3:

If Congress decides to raise the statutory cap, what policies and procedures does the SBA intend to implement to differentiate this direct lending proposal from the tried-and-failed direct lending program ended by the Clinton Administration because then-Administrator Bowles stated the subsidy rate was 10 to 15 times that of guaranteed loans?

A longstanding feature of Section 7(a) of the Small Business Act is that it authorizes SBA to make direct general business loans to creditworthy borrowers that are declined by banks for an SBA-guaranteed loan. In order to fulfill that authorization and continue to fill gaps in the marketplace, the President's Budget proposes an adjustment to the interest rate SBA may charge on direct loans. Currently, SBA may charge one percentage point above the 5-year Treasury. Allowing SBA to charge 6 points over the 5-year Treasury would allow SBA to run a direct loan program with rates that are comparable to those offered by SBA guaranteed lenders and require no appropriation from Congress.

SBA will draw on best practices, including those that enabled the direct disaster loan program to reduce approval timelines from roughly 3 months to less than a month. That program's Unified Lending Platform enables SBA to provide fair and efficient underwriting, fraud and eligibility screening, and loan servicing. Because of the technology, overhead is reduced, the ability to project loan quality is enhanced, and the program can be efficiently managed to zero subsidy.

As you may know, the National Institute of Standards and Technology (NIST) put forth a request for information on a new interagency framework on patent march-in authority. I, and many of the small businesses I have heard from, are worried that broad march-in authority would disincentivize small businesses from competing for federal funds, discourage them from pursuing the multitude of pathways to achieve commercialization, and stymie America's innovative ecosystem at a time where geopolitical tensions are on the rise.

It is critical, absolutely critical, that we do not take steps to dampen opportunities for the drivers of American innovation in this moment. The future generation will look back closely at the decisions we make today. I fear this effort by the Administration could be one where they look back in disappointment if the administration fails to change course. With that in mind:

QUESTION 4:

The "march in" provisions of the Bayh Dole Act apply to any federally funded research that results in a patent, not just drugs. It also applies to patents produced by small businesses receiving Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) funding. Has the Biden administration determined, in conjunction with the SBA, which patents might be subject to march in based on this funding and what the impact of exercising march in on these small businesses would be? Please share the results of any such inquiry.

The Bayh Dole Act, including the government's "march-in rights," have always applied to federally funded research, including research funded through the SBIR and STTR programs. The

current effort describes the framework for considering the exercise of “march-in rights” and the four specific circumstances when an agency can use “march-in rights.” Therefore, there are no specific patents being targeted.

QUESTION 5:

The FTC posted comments to the proposal by NIST, praising the efforts to expand march-in rights. I was alarmed to see that the SBA decided not to issue comments or weigh in on behalf of the 33 million small businesses you represent. Does the SBA have a formal stance on the effort to expand march in rights and what impact does the SBA anticipate this will have for the countless small businesses that have used federal funds to help invest in and commercialize products?

A goal of the SBIR and STTR programs are to increase the private sector commercialization of federal research, and the commercial potential of projects are considered throughout the Phased structure of program and when making funding decisions. Entrepreneurs and small businesses receiving SBIR and STTR awards aggressively seek to commercialize their technology, and the already established legislative requirements of the Bayh Dole Act, including the government’s “march-in rights,” already apply to the SBIR and STTR programs, but they do not alter the aims of these programs which are driven by innovators pursuit of commercial opportunities of their federally funded research and development.

QUESTION 6:

Has there been any effort by NIST, and the other relevant agencies, to work in conjunction with the SBA to determine what specific Intellectual Property (IP) from small businesses may be at risk, or marched in on, as a result of this new framework?

The Bayh Dole Act, including the government’s “march-in rights,” have always applied to federally funded research, including the SBIR and STTR programs. The current efforts describe the framework for considering the exercise of “march-in rights” and the four specific circumstances, when an agency can use “march-in rights.” Therefore, there are no specific Intellectual Property (patents) being targeted, but a framework on the exercise of “march-in rights.”

Questions from:**Senator Young**

Digital tools are crucial for small businesses to grow, that is why I – along with Senators Rosen, Budd, and Shaheen – introduced the Small Business Technological Advancement Act. Our legislation simply clarifies that small businesses can use 7(a) loan guarantee funding to purchase digital tools.

QUESTION 1:

Will you commit to working with my office to help expand the use of digital tools for small businesses?

Small businesses can already utilize 7(a) funding to purchase digital tools.

Small business owners, already skilled at navigating the complexities of their industries, are increasingly finding themselves on the front lines of cybersecurity defense. This presents unique challenges, especially within the constraints of often tight budgets, making the decision-making process around cybersecurity measures even more daunting.

QUESTION 2:

How is the SBA collecting feedback from small businesses on the cybersecurity challenges they face and the effectiveness of the SBA's cybersecurity initiatives?

The SBA cyber initiative such as the Cyber Assistance Pilot Program has awarded a total of \$9 million to state governments such as Arkansas, Colorado, and Indiana. Through the program, state governments are empowered to develop the infrastructure and resources to assist small business with increased access to cyber hygiene tools and expertise services.

SBA requires quarterly reports from grant recipients participating in the pilot program that includes quantitative and qualitative results from each recipient on respective program's initiatives, activities, and deliverables. Below are the specific items captured in the reports:

- 1: Summary of Cybersecurity Activities Including Incidences of Cybersecurity Fraud/Compromise Successfully Resolved
- 2: Number of Cybersecurity Cases Resolved or Referred To Existing Partners
- 3: Summary of Unique Clients Served
- 4: Summary of Outreach Strategy Including Counseling/Training Meetings
- 5: Potential or realized cost-savings of cybersecurity resolution/avoidance/mitigation to small business client(s)

6: Remediation Activities: monitor and record the type and quantity of remediation activities completed by outside vendors hired for the program.

QUESTION 3:

How is this feedback being used to iterate and improve the programs?

Regular collection of performance from grantees participating in the cyber initiative provides the agency with insight and intelligence that we use to retool or enhance the tools that equip small businesses to be successful, such as integrating learnings into our annual SBA Cybersecurity Summit or sharing best practices with our resource partner networks, service provider ecosystem and the U.S. small business owners themselves.

In light of the SBA's attempt to revive a direct lending program, I have concerns regarding the efficacy of this new direction. This shift, against a backdrop of historical challenges and elevated loss rates within direct lending practices, should require a critical examination of the SBA's preparedness to monitor and refine the program.

QUESTION 4:

What mechanisms are you suggesting that would ensure rigorous oversight and continuous evaluation of the direct lending program's effectiveness, particularly considering this significant departure from the SBA's established operational model?

SBA has extensive experience with direct lending in our disaster lending program including successfully lending \$2.98 billion to 43,108 borrowers in FY2023.

QUESTION 5:

How does the SBA also plan to mitigate the high loss rates associated with direct lending?

SBA will leverage modern tools and technology to protect taxpayer dollars from waste fraud and abuse.

Relatedly, the recommendation to increase the statutory cap on interest rates from 1% to 6% over the market rate paid by the federal government suggests another shift in policy.

QUESTION 6:

How does the SBA reconcile the need for higher interest rates with the goal of making capital accessible to small businesses, particularly those that are financially vulnerable?

Currently, SBA may charge one percentage point above the 5-year Treasury. Allowing SBA to charge 6 points over the 5-year would allow SBA to run a direct loan program with rates that are comparable to those offered by SBA guaranteed lenders and require no appropriation from Congress.

Large businesses are better able to weather higher interest rates by drawing on collateral and longer credit histories. Small businesses are more likely to see higher interest rate swings and pullback from lenders. SBA's loan programs are important because they help de-risk lending to small businesses. Interest rates will still be higher, and businesses unable to repay should not receive a loan, but those who can should do so.

As federal contracting sees record-high awards, the number of small businesses involved continues to drop sharply, indicating a disconnect in government procurement practices.

QUESTION 7:

What actions is the SBA taking to reverse the downward trend in small business participation in federal contracting?

The downward trend is concerning, but preliminary data for 2023 indicate that the decline—though continuing—is slowing. This shows that SBA's policy interventions are working. These include measures like reforming category management, putting small-business performance goals in executives' annual plans, and expanding the Rule of Two.

Specifically, how does the SBA intend to simplify the process and reduce the regulatory burdens that disproportionately affect small businesses, ensuring they have a fair chance to secure government contracts?

The Unified Certification Platform (UCP) is a consumer experience-driven, unified set-aside certification system that achieves excellent customer experience for our small business constituents. The UCP system, accessible via the MySBA portal through single sign-on, will consolidate retrieval of historic data and documents, unify single application to all set-aside programs, and synchronize management of re-certifications. This system will replace five existing, separate systems, one of which is Certify.sba.gov. The goal is to streamline the application processes within the UCP and apply consistency amongst the set-aside program criteria. Applicants will be able to submit a common application, with a minimum amount of documentation needed, encompassing elements of each of SBA's set-aside contracting program. SBA analysts will be able to review one application package to make eligibility determinations for those Programs that the applicant may qualify.

Amid the SBA's latest overhaul of the Small Business Investment Company (SBIC) program, the introduction of accrual debentures marks a major shift.

QUESTION 8:

Given the introduction of accrual debentures designed to support equity-focused investments without immediate cash flow returns, how does the SBA plan to monitor the performance and risk profile of these investments?

Risks in private investing come in many forms including illiquidity risk, duration risk, volatility risk, concentration risk, credit risk, and tail-event risk. Over several decades, SBA has found that illiquidity risk, duration risk, and strategy concentration risk correlate with the highest risk of overall program losses. The Accrual Debenture instrument combined with the portfolio diversification rules address these three primary risk considerations through cash flow matching, duration and repayment management, and guardrails to prevent the overall program from over-concentrating in more volatile 'risk-on' strategies. As with all private fund investments, proper investment and operational due diligence and ongoing portfolio monitoring is essential to safeguarding capital. SBA maintains a rigorous investment, operational and legal due diligence process prior to Licensing a fund as an SBIC. Once a fund is licensed as an SBA, the fund is subject to annual regulatory examinations, quarterly financial and investment performance reporting and portfolio reviews.

QUESTION 9:

Are there specific metrics or indicators that will be used to assess the success of Accrual SBICs?

Similar to Standard Debenture SBIC Licensees, SBA will be monitoring credit risk metrics, investment performance metrics, and economic stimulation and outcome metrics including—

- *Leverage coverage ratios*
- *Capital impairment ratios*
- *Portfolio level loss rates*
- *Total Value to Paid-In (TVPI)*
- *Distributed to Paid-In (DPI)*
- *Residual Value to Paid-In (RVPI)*
- *Multiple on Invested Capital (MOIC)*
- *Net and Gross Internal Rate of Return (IRR)*
- *Private Capital Assets Under Management (AUM)*
- *M&A and IPO transaction dollar and volume*
- *Number of net new jobs created*
- *Number of businesses financed*
- *Number of equity investments and dollar value of equity investments*
- *Number of new firms participating in the SBIC program*
- *Number of new SBIC licensees by investment strategy:*
 - *Seed and Early Stage Venture*
 - *Growth/Expansion Stage*
 - *Buyout*
 - *Fund-of-Funds*

QUESTION 10:

How does the SBA plan to manage and mitigate the higher risk profile associated with these investments compared to traditional debentures?

With the introduction of the Accrual SBIC license, SBA has taken several steps to mitigate risk to the program including: (1) limiting the leverage available to individual Accrual SBICs to 1.25x tiers of leverage (vs. the 2x tiers of leverage available to Standard Debenture SBICs), (2) modifying the distribution waterfall for Accrual Debenture SBICs to ensure that SBA receives distributions on accrued interest and pro rata on principal with distributions to the private investors (compared with the Standard Debenture SBIC which permits distributions to private investors without paying a pro rata proportion of SBA capital and pay-off of all interest), and (3) as with all SBIC licensees, retaining the ability to take action for regulatory defaults including uncured capital impairment, which remains vital to protecting U.S. taxpayer dollars.

Importantly the 'accrued interest' feature of the Accrual Debenture addresses cashflow matching / asset-liability matching considerations equity-oriented investment strategies. The Standard Debenture instrument required semi-annual interest payments which creates illiquidity and duration risks for investment strategies which typically cannot make distributions until a few years into the life of the fund.