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# United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

PATRICIA R. FORBES, MAJORITY STAFF DIRECTOR AND CHIEF COUNSEL  
EMILIA DISANTO, HELIPUBLICAN STAFF DIRECTOR

September 7, 2001

The Honorable Mitchell E. Daniels, Jr.  
Director  
Office of Management and Budget  
Executive Office of the President  
17<sup>th</sup> Street & Pennsylvania Avenue, N.W.  
Washington, D.C. 20503

Dear Mitch:

On Wednesday, September 5, 2001, the Committee on Small Business and Entrepreneurship conducted a Roundtable on the credit subsidy rates for the Small Business Administration's (SBA) 7(a) guaranteed business loan program. The purpose of the Roundtable was to review a recent report from the General Accounting Office (GAO), which concluded that the SBA and the Office of Management and Budget (OMB) had overestimated the credit subsidy cost of the 7(a) program by \$958 million since Fiscal Year 1992. GAO further concluded that the overestimate of defaults was the prime reason for the inaccurate credit subsidy rates.

A large portion of the \$958 million overcharge is made up of fees paid to the SBA by the small business borrowers and the lenders who deliver the SBA 7(a) guaranteed loan program. As you know, under the Federal Credit Reform Act of 1990, excess fees paid as part of the credit subsidy cost of Federal loan program are sent to the general fund of the Treasury rather than being returned to the program or to the persons who made the payments.

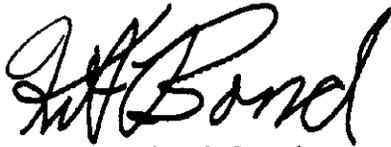
As was discussed before yesterday's hearing at the Budget Committee, Dr. Lloyd Blanchard represented the OMB at this Roundtable. Indeed, we are very appreciative of his participation in this session which lasted over two hours. For your review and future reference, a list of the Roundtable participants is enclosed.

It is imperative that this matter be resolved before October 1, 2001, the beginning of FY 2002. Consistent with this deadline, Dr. Blanchard agreed to undertake a complete review of the information provided at the Roundtable and to work with the staffs from the GAO, the SBA, the Committee, and representatives from the lending industry in arriving at a possible and expedited solution and to report back to Committee in not more than three weeks. The Committee expects that OMB will also report on what adjustments can be made to the credit subsidy rate to make it more accurate for FY 2002.

The Honorable Mitchell E. Daniels, Jr.

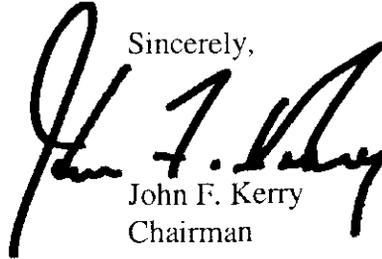
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Your assistance in insuring a prompt solution to this important matter will be greatly appreciated. Small business borrowers and the lenders who deliver the 7(a) program should not enter the next fiscal year knowing that the fees they are paying are well in excess of the needs of the program. As the GAO report emphasized, this situation has persisted since 1992, and we on the Committee urge you to initiate action that is fair and equitable to our Nation's small businesses. It is vital to ensure adequate funding for small businesses to help them lead us out of the current economic doldrums.



Christopher S. Bond  
Ranking Member

Sincerely,



John F. Kerry  
Chairman