

**U.S. SENATOR CHRISTOPHER S. BOND**  
**Hearing on FY 2003 SBA Budget Request and**  
**Nomination of Melanie Sabelhaus as SBA Deputy Administrator**  
**February 27, 2002**

**Opening Statement**

Mr. Chairman, thank you for convening this morning's hearing on the President's FY 2003 Budget Request for the Small Business Administration (SBA) and the President's nomination of Melanie Sabelhaus to be the new SBA Deputy Administrator. Both are pressing matters before our Committee that we need to address promptly. I realize the budget request and the President's nomination could each warrant a separate hearing; however, with the number of conflicts facing the Members of the Committee, I appreciate the willingness of my good friend from Massachusetts to bring both matters before the Committee in a timely manner. Before we begin this morning's fast-paced hearing, I want to extend a warm welcome to Ms. Sabelhaus to our Committee. I am sure today will not be her only appearance before us. Her nomination by President Bush will fill the most important remaining vacancy at the Agency.

The SBA Budget Request For FY 2003

The President's team is beginning to see the value of the programs at the SBA. We all recall the budget request set up last year. It called for deep cuts in the Agency and its most important programs. Congress rejected the proposed budget cuts and approved \$768.5 million for the SBA's FY 2002 budget.

This year, the Administration is off to a much better start. The President's proposal to increase spending at SBA to \$798 million recognizes the value-added that is brought by the SBA to our federal programs to promote small business start ups and expansion. There are

strong points in the budget request that are, unfortunately, offset by some problem areas that we in Congress will address and, hopefully, correct.

## HUBZones

As Chairman Kerry and Administrator Barreto are well aware, I am a vocal advocate for the HUBZone program. The President's budget request of \$2 million to fund the HUBZone program is a good start, and I applaud the President for his recognition of the value this program can bring to chronically poor inner cities and rural counties. As many of you know, the HUBZone program permits the federal government to award prime contracts to small businesses that are located in our Nation's economically distressed cities and poor rural areas and which employ at least 35% of their workforce that reside in HUBZones. The HUBZone program is one with a double bottom line: it will promote economic development in poor inner cities and rural counties, and it provides special federal contracting opportunities to small business who are willing to invest in the economically distressed areas.

Unfortunately, the implementation of the HUBZone program has not kept pace with the goals enacted into law by Congress in 1997. It was very clear the previous Administration had little or no interest in the program. Under Administrator Barreto's leadership, the President has again requested \$2 million for the program. I would like to hear firsthand from the Administrator the steps the SBA will undertake this year and next to accelerate the growth of the HUBZone program.

Administrator Barreto, you can be sure I intend to work with my colleagues on the Appropriations Committee to increase the level of funding in the SBA budget for the HUBZone program so that the SBA can meet the most aggressive milestones you might set for the HUBZone program.

A laurel goes to SBA for its stewardship of the Small Business

Investment Company (SBIC) program. Last year, Congress approved a small increase in the annual fee paid by the Participating Securities SBICs, which allowed the entire program to proceed without the need for a Congressional appropriation. I was pleased to see that the fees paid by the SBICs to support this program will be reduced slightly for FY 2003.

The Administration deserves another laurel for its continued support for the SBA management assistance programs that help hundreds of thousands of small businesses every year. The Service Corps of Retired Executives (SCORE) is made up of nearly 12,000 volunteers working nationwide in 389 chapters. These very effective volunteers provide counseling and training to nearly 400,000 small businesses annually via face-to-face meetings and through Internet counseling, which is SCORE's latest success story.

The Small Business Development Centers (SBDCs) provide management assistance and training to over 600,000 small businesses each year through 1,000 locations located nationally, often associated with the state university systems. And the SBA Women Business Center program provides grants to non-profit organizations to train and counsel women entrepreneurs. The Online Women's Business Center provides 24-hour a day Internet site with information targeted specially for businesswomen.

We on the Committee are taking a hard look at the funding levels for these management assistance programs, which become even more important to small businesses during an economic downturn or recession. In particular, I am concerned about the comments included in the SBA budget request claiming that the Agency has been "inhibited" in its efforts to measure the success of the SBDC program. If this is actually the case, I would urge the SBA to work closely with the SBDC programs throughout the United States to develop a system that measures the level of help provided by SBDCs on a state-by-state basis. I am aware of the success of the SBDC program in my own State of Missouri, and the SBA may want to look closely at a system similar to the one used in Missouri to measure the

success of the SBDC program nationwide.

It is true with everything in government - nothing is perfect, and we can always find room to make improvements. In the case of the SBA budget request, while I have been able to recite many laurels for the President's and Mr. Barreto's support for our nation's small business community, there are a few offsetting "darts." There are a couple ongoing problems that need to be resolved very soon. I am very concerned about the difficulties we continue to experience with the credit subsidy rate for the 7(a) guaranteed business loan program and the 504 Development Company Loan Program.

Last year, Senator Kerry and I were joined by Mr. Manzullo and Ms. Velazquez in a request to the General Accounting Office (GAO) to examine the method used by the SBA and OMB to calculate the credit subsidy rate for the 7(a) loan program. The GAO analysis of the 7(a) credit subsidy rate showed rather convincingly that the OMB and SBA had overestimated the credit subsidy rate during the past decade, which had, in turn, caused more than \$1 billion to be collected in excess fees and appropriations to underwrite the 7(a) program.

Last October, the Senate Budget Committee staff received assurances from the OMB that the 7(a) credit subsidy rate would not exceed 50 basis points (0.5 percent) in the FY 2003 budget request. This assurance was confirmed to me in letter from Senate Domenici. Because of the assurance included in the letter, I subsequently agreed to drop my support for a provision in the Treasury - Post Office Appropriations Bill to require the OMB to correct its model. Contrary to the assurances made by the OMB last fall, the President's budget request included a credit subsidy rate of 88 basis points (0.88 percent), which is 76 percent higher than the highest level cited by the OMB in their assurance to the Senate Budget Committee staff.

To some of you, this difference might seem slight. You might think

we're splitting hairs. But in reality, the difference is significant. The 38 basis points above the maximum level set by the OMB last fall means that Congress will need to appropriate at least an additional \$45.6 million to fund the 7(a) loan program in FY 2003. Based on the GAO analysis of the credit subsidy rate, it will not be long before this additional appropriation along with some fees collected from borrowers and lenders will be found to be "excess" and will be sent to the General Treasury. It is clear that the SBA and OMB will be collecting fees that are well in excess of the needs of the program.

The 504 Certified Development Company is experiencing similar problems. When I first became Chairman of this Committee in January 1995, the 504 credit subsidy rate was about 50 basis points or one-half of one percent. This grew by 1200 percent in FY 1997. At that time, the SBA revealed that the recovery rate for defaulted loans was 44% not 80% as claimed in earlier budget request.

The two major variables in calculating the credit subsidy rate are defaults and recoveries. Since FY 1997, 504 program defaults have dropped from 18.8 percent to 8.3 percent. However, this decrease has been offset in part by a significant decrease in recoveries from 44 percent to 20%. At the same time recoveries are shrinking, the SBA reports to Committee staff that recoveries under the Liquidation Pilot, now a permanent part of the 504 program, are over 50 percent. Further, the Agency has claimed to have made significant savings under its Asset Sales Program, which has included a significant number of 504 loans. The success claimed by the SBA when compared with the projections in the credit subsidy rate seem to contradict each other.

At the same time fees paid by the borrowers, lenders and Certified Development Companies have been high, the program has sent millions of dollars to the General Treasury in fees collected that are in excess of funds needed in the program's reserve accounts. During the past two years, \$270 million in excess fees collected from the 504 Program have been classified

in excess of the needs of the program. During this same period, Congress appropriated zero dollars (\$00.00) to underwrite potential losses under the program, since the 504 program is supported entirely by fees paid from the private sector.

Under Mr. Barreto's leadership at SBA, I am pleased to learn that the SBA has hired the Office of Federal Housing Enterprise Oversight (OFHEO) to develop a new "econometric" credit subsidy model for the 7(a) Program in FY 2004 and the 504 Program in FY 2005. I hope Mr. Barreto and his team are successful. Four years ago, under a different SBA Administrator, the Committee was told, without equivocation, that the SBA was developing a new, econometric model to calculate the credit subsidy rate. Over the next four years, no econometric model was developed. But hundreds of millions of dollars of excess 7(a) and 504 fees were sent to the General Treasury.

The loan making policy at the SBA is to make more, smaller 7(a) loans. I will listen closely to Mr. Barreto's justification for this change. One thing would appear to be pre-ordained - this new policy will cause the credit subsidy rate to increase. As the "green eye shade types" have explained to me, when the 7(a) loans increase in size, the fees paid to the SBA increase but at a greater rate proportionally. Conversely, an increase in smaller loan volume accompanied by a decrease in larger loan volume will cause a proportionally larger decrease in the amount of fees collected by the SBA. This decrease, in turn, will cause the credit subsidy rate to increase, which will require a larger appropriation from Congress. Unless, these two alternatives occur: (1) fees paid by borrowers and lenders are increased or (2) the program size is decreased. Either alternative is harmful to the small business community.

As Administrator Barreto is aware, we on the Committee will be watching closely as he and his team work through the credit subsidy rate problems. I sincerely hope that when we gather here next year, I will be able to move the 7(a) credit subsidy rate issue from the "dart" portion of

my statement to the "laurel" side.

### **Melanie Sabelhaus Nomination**

Ms. Sabelhaus, welcome to the Committee on Small Business and Entrepreneurship. Congratulations on your nomination by a President Bush to the second-in-command at the SBA. Your's is a very important position and is key to the long term success of the Agency. Before 1990, the Deputy Administrator position was not subject to the advice and consent of the U.S. Senate. The Congress enacted legislation that year to recognize the level of importance of this job. And you can be sure that I, as well as the other Members of the Committee, will be looking to you for your experienced leadership at the SBA, just as soon as we can vote on your nomination.

Since you were nominated, we have learned about your success in starting up a new, small business called Exclusive Interim Properties, Ltd. You were able to achieve a high level of success in your business that thousands of small business that turn to the SBA are looking to duplicate. Ms. Sabelhaus is bringing the type of experience to the SBA that is ideally suited to boost the Agency's mission. I would urge Ms. Sabelhaus to be forthcoming and aggressive as she grapples with her new responsibilities.

Mr. Chairman, I have gone on long enough. Thank you for the opportunity to address the hearing.