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United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510–6350

January 8, 2004

VIA FACSIMILE & FIRST-CLASS MAIL

The President
The White House
Washington, D.C. 20500

Re: The Administration's "Lending Holiday" for the SBA's Largest Small Business Loan Program

Dear Mr. President:

As the office was closing Tuesday night, the Senate Committee on Small Business and Entrepreneurship received an email from the Small Business Administration announcing that your Administration was instituting a "lending holiday" for the 7(a) Loan Guarantee program. On behalf of the nation's small business borrowers and the lenders who provide these loans on behalf of the SBA, and as members of the SBA's Senate oversight committee, we strongly object to closing down the SBA's largest small business lending program.

We also object to the Agency taking such actions without complying with the statutorily required 15-day notice period. Neither the Agency's letter of December 23, 2003, advising the authorizing committees of the Agency's intent to institute an undefined cap on 7(a) loans as of January 8th and to prepare for a hiatus in guarantee issuance, nor the email sent Tuesday night, officially and immediately shutting down the program, meet the test of notification as required by law.

Mr. President, it should not be, and would not be, necessary to shut down the program, or even impose loan limitations, if the Administration had requested sufficient funding in its budgets, responsibly monitored lending, and acted in a timely way to adjust to the growing demand for 7(a) loans. To review the Administration's record: in FY2002, the Administration proposed eliminating all funding for the program and shifting the cost to small borrowers and lenders each year by increasing the fees by almost $130 million. Congress rejected this approach. In FY2003, the Administration cut the program in half, requesting only $4.85 billion in lending authority when the projections exceeded $11 billion. This higher level was actualized according to SBA's data and occurred despite a loan cap in place for almost half the year. In FY2004, the Agency requested only $9.3 billion, even though industry projections and past loan volume anticipated a 7(a) loan volume of more than $12 billion. These projections have proved accurate given the loan activity of the first three months of this fiscal year. Because of this mismanagement, each year the Congress has been forced to bail out the Agency with additional appropriations, and sometimes with emergency legislation.

These repeated miscalculations make a mockery of the millions the SBA has spent on a loan monitoring system, undermine the stability and effectiveness of one the country's largest sources of long-term lending for small businesses, and also undermine the Administration's credibility. More importantly, shutting down the program has left hundreds of small businesses without access to what is estimated to be more than $600 million in small business loans.

In addition, with respect to loans that are already in the SBA processing "pipeline," and contrary to the direction issued in the Policy Notice (No. 0000-1707) that the SBA released Tuesday night, the Agency should not return or destroy any loan applications it receives. The Agency should instead hold the loan applications and date when they are received so that they can be processed in the order they were received once the program is again operating and guaranteeing loans. This approach is fair and does not penalize those who have pending applications. It is our hope and expectation that once SBA resumes 7(a) lending it will fund, at a minimum, all loans that were pending up until January 8th, the date on which a $750,000 cap for the rest of the fiscal year is to begin, according to SBA's policy notice (5000-902) issued on December 30, 2003.

Mr. President, it is unnecessary for the Administration to close down the program when the SBA has the discretion to reprogram money to continue guaranteeing small business loans. We call upon you to reprogram money immediately in order to get small businesses the loans they are waiting for, and to reprogram money that does not hurt the other programs vital to small businesses. That would keep the 7(a) small business loans available until Congress comes back into session, at which time the Administration could send up a request for supplemental funding to permit the program to meet the projected demand throughout the remainder of fiscal year 2004. To avoid repeating a shortfall in FY2005, we urge you to request a program level and budget authority that funds the 7(a) loan program to reflect the past few years of growing demand. A reasonable program level would be at least $13 billion.

The SBA's 7(a) Loan Program is one of the largest sources of long-term lending to small businesses in this country and the source of more than 347,000 jobs created last year. We cannot afford for this program to be shut down or crippled. As we have done repeatedly in each of the past three years, we are willing to work with the Administration and our Congressional colleagues to help the SBA continue to provide small businesses the loans they need to be successful and continue as the nation's top job producers.

We thank you, in advance, for considering our requests.

Sincerely,

John F. Kerry

Carl Levin

Tom Harkin

Joseph I. Lieberman

Mary L. Landrieu

John Edwards

Maria Cantwell

Evan Bayh

Mark Pryor