TESTIMONY OF

ADMINISTRATOR BARRETO

SENATE SMALL BUSINESS

AND

ENTREPRENEURSHIP COMMITTEE

THURSDAY, MARCH 9, 2006

Madam Chair, Ranking Member Kerry, members of the Committee, thank you for inviting me here today to discuss the President's FY 2007 budget requests for the Small Business Administration (SBA) and related legislative issues.

Since 2001, the SBA has been on a mission to deliver more services to the nation's small businesses. We are proud of the SBA's success in that quest and the FY 2007 budget reflects a continuation of this goal.

Lending is at an all-time high, more clients than ever are being served by our Entrepreneurial Development programs, and improved methods to assist small businesses gain access to government contracting opportunities have been implemented. These accomplishments have had challenges, but we have met the challenge to better serve the needs of American small businesses.

By restructuring key Agency operations and reengineering the agency's largest loan programs, the SBA has achieved record program growth while operating more efficiently and reducing its total budget by more by 37% since 2001. The SBA has improved the effectiveness of the taxpayers' dollars supporting small business development.

With these improved efficiencies in FY 2007, SBA will be able to serve record numbers of small businesses with a total budget request of $624 million.

Capital Access

SBA has supported record setting growth in small business lending. We have significantly increased our loan volume since 2001, more than doubling the number of 7(a) and 504 loans funded. In FY 2005 nearly 98,000 small business borrowers received financial assistance through 7(a) and 504 loan programs, compared to only 42,000 in FY 2001.

The FY 2007 request will support $28 billion in financing to the U.S. small business community. This represents a 42% business lending increase over FY 2005, through the 7 (a), 504, and SBIC debentures program. For the 7(a) program, the $17.5 Billion is a 22% increase over our final FY 2005 lending level and 38% more than FY 2004. Lending to minorities increased by 23% and loans to women-owned businesses was also up by 39% during that same period.

Approximately 40% of 7(a) loans are under $35,000, going to America's "mom and pop" businesses, making the costly Microloan program unnecessary. The Microloan program costs $0.95 for every dollar loaned in FY 2005 compared to the 7(a) program which cost 1/3 of one cent for every dollar loaned. Through the 7(a) program alone, we plan to guarantee loans to approximately 98,000 businesses in FY 2007.

We are also requesting a $7.5 billion 504 program level, a 50% increase over FY 2005 and an SBIC Debenture program of $3 billion. Through all of these programs SBA will be able to continue to meet growing demand for loans in FY 2007 without fear of shutdowns or caps because all three programs operate at zero subsidy.

Zero subsidy is still the best policy for promoting the long term stability and growth of SBA's loan programs. This funding structure is having a positive effect on SBA lending. Because of the current fee structure, the programs are stable, self-supporting and free from the volume limitations

imposed by a finite annual appropriation. As a result, small business borrowers can access credit through the SBA without having to worry about temporary loan limits and periodic shutdowns caused by appropriations shortfalls.

With an outstanding guaranteed and direct loan portfolio approaching $70 billion, SBA has a critical role as a steward of the taxpayers' dollars. In addition to increased efficiencies in lending processes we have improved our lender oversight functions - allowing us to not just operate leaner, but smarter.

We have been able to reach milestones of service delivery through more streamlined and efficient processes such as consolidating 7(a) loan liquidation functions from almost 70 district offices to a single location. Consolidating the loan liquidation functions reduced costs by $25 million from $32 million in FY 2003 to $7 million in FY 2005.

The result of the implementation of efficiencies is that the cost of funding a 7 (a) loan dropped from $3,923 in FY 2001 to $559 in FY 2005 - an 85% drop. The cost of funding a 504 loan decreased to $1,581 in FY 2005 from $3,101 in FY 2001 - a 51% decrease. The SBA will continue to be good stewards of taxpayer money in FY 2007. Through further consolidations and efficiencies planned for FY 2006 and 2007 will include annual savings of $5 million by FY 2008 for rent. Future plans to centralize 7(a) loan processing and 504 and Disaster loan liquidation will provide additional efficiencies.

In keeping with these savings and efficiencies the Administration is proposing an administrative fee for SBA's 7(a), 504 and SBIC loans over $1 million. This fee will cover the cost of making these loans. Only 3% of 7 (a) borrowers will be affected, while taxpayers will save $7 million in FY 2007.

SBA is also seeking ability to cover subsidy expenses through new fee authority to cover subsidy expenses for pools of 7(a) loans sold in the secondary market and for administrative expenses for oversight of Certified Development Companies in the 504 loan program. We are not presently proposing a specific secondary market fee for this purpose, but support granting SBA the statutory

authority to charge such fees in the future would eliminate the chance of a program shutdown.

The President's FY 2007 budget reflects the same commitment to successful lending programs that have been attained since 2001.

Entrepreneurial Development

The Office of Entrepreneurial Development manages a strong distribution network of service centers for small businesses across the country. The services offered include assistance in preparing business plans, loan applications, procurement assistance, marketing plans, export advice, and competitive assessments.

SBA serves these clients through our three resource partners: Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE. In FY 2006, our resource partners trained and counseled over 1.1 million clients. In addition, since 1994 the Office of Native American Affairs (ONAA) has worked to address the unique needs of America's First People. SBA provided almost $1 million in grants under the Drug Free Workplace program. The Agency will continue to promote these grants through our partners.

We continue to focus on making our ED programs more effective and efficient. As part of our strategic planning process, we sought to identify the characteristics of the small business owners of the future.

Next, we focused on ensuring that all of our counseling programs use the same performance measurement system. We now have consistent definitions across all programs for counseling sessions, information transfers, online counseling, and training.

To collect this information, we updated and revised our Management Information System. We have successfully completed the first comprehensive collection of data using standardized definitions across all programs, using the EDMISII system which will allow us to perform an analysis of services provided to clients and of client demographics.

To reach new clients, SBA is encouraging our partners to utilize online development and maximize the resources we provide them to increase capacity for outreach.

SBA and SCORE have pioneered online counseling. Approximately 34% of SCORE total counseling is done online. The Office of Entrepreneurial Development has been a leader in pursuing the use of the internet to expand its products and services. In addition, 311,000 clients registered for our 23 online courses through our Small Business Training Network and 1.04 million accessed the SBA website. SCORE has indicated that a combination of on-line and face to face counseling is the most effective approach.

In addition to the programs offered through the SBA Office of Entrepreneurial Development, in July 2004 the President announced the creation of a the Urban Entrepreneur Partnership (UEP). This is a public-private partnership between the Administration, the Business Roundtable, the Ewing Marion Kauffman Foundation, and the National Urban League called the Urban Entrepreneur Partnership (UEP). The UEP combines the resources of the private, public and non-profit sectors in order to expand entrepreneurship and jobs in historically neglected or economically underperforming urban areas. Among specific actions undertaken by the UEP, it opened of an office in the Gulf region to help position minority-owned businesses for opportunities related to the rebuilding of Gulf Coast communities following the devastation of Hurricane Katrina and Rita. In addition, centers have opened in Kansas City, Cleveland, and Jacksonville. There are plans to open in Atlanta, Cincinnati, Milwaukee and Baltimore this year. The SBA has become an active supportive partner in this initiative.

Government Contracting

SBA's Office of Government Contracting and Business Development has 58 Procurement Center Representatives (PCRs) -- more than ever before -- assisting small business with federal procurement issues. In Fiscal Year 2004, small businesses received contract awards totaling a little over $69 billion of the approximate $300 billion in total federal contract awards.

SBA's Office of Government Contracting and Business Development has also instituted enhanced practices and technological improvements. In FY 2006, the SBA developed a different approach to Agency goaling to bring more transparency to the process as well as recognize the variances in procurement requirements among Federal agencies. Technological improvements have provided many benefits and increased efficiencies concerning government contracting opportunities and monitoring.

Strides have been made to maximize staff resources and monitor contracting activities, as well as to improve communication and interaction with the small business community through the automation of many basic systems. Systems include the Electronic Subcontracting Reporting System (ESRS), the 8(a) application and annual review process, the HUBZone Procurement Query and Reporting System, as well as the Central Contractor Registration, the Federal Procurement Data System - Next Generation (FPDS-NG), and Tech Net among others. As technology is ever changing and improving, so are the efficiencies enhanced by using these E-gov systems.

The added benefit of these technological advances is apparent in the business matchmaking efforts following the Gulf Coast Hurricane disasters. SBA's field resources were focused on providing procurement opportunities for these small businesses. Over 500 businesses registered for these procurement opportunities in the Business Matchmaking database were certified as able to compete for Federal procurements. Electronic notifications with updates to the projects, and follow-up calls were made by SBA procurement professionals who provided further assistance. Each firm has had its profile uploaded to the GSA electronic notification system to receive electronic alerts of procurement opportunities. Each firm is eligible to participate in the Business Matchmaking Online. Of the $1.6 billion in "Katrina" Federal contracts entered into the

FDPS-NG, $1.1 billion was awarded to small business, over $750 million to local businesses.

With the successful launch of the Electronic Subcontract Reporting System (eSRS) in October, 2005 more than 700 contractors have filed approximately 5,000 reports. This system replaced the paper forms that prime contractors submitted to report on their subcontracting. Enhancements to the system to be implemented at the beginning of FY 2007 will allow SBA to determine which contractors are, and are not, meeting their goals for Small Business, Small Disadvanted Business, Women-owned, HUBZone, veterans and service-disabled veterans.

In FY 2007 SBA will continue to work to fair and open access in the in the Federal procurement arena.

Disaster Assistance

SBA's Office of Disaster Assistance has met the challenges brought by Hurricanes Katrina, Wilma and Rita. Flooding and debris prohibited access to damaged or destroyed property, delaying loss verifiers' ability to assess damage for weeks after Hurricane Katrina. Victims being scattered across the United States after evacuation has made the process even more difficult. The unparalleled number of applications reached over 383,000, more than 9 times Hurricane Andrew. Our response has been Agency-wide, from the 4,200 people working in our Office of Disaster Assistance to the hundreds of staff in our district offices across the country who are helping to process loans.

SBA has already surpassed by more than $2 billion what was previously the largest response (in dollars approved) in its history, the 1994 Northridge Earthquake in California. Following that disaster, it took one year to process 250,000 applications received. In its response to the 2005 Gulf Coast hurricanes, SBA has processed more than 251,000 applications in only six months. More than 86% of business disaster loan applications and 97% of Economic Injury Disaster Loan applications received to date have been processed. More than 270,000 damaged properties have been inspected.

Unfortunately, throughout the course of a "normal" year numerous other natural disasters occur. The FY 2007 Budget requests funding to support $900 million for loans to homeowners and businesses struck by natural disaster, an estimate based on the 5 year average.

The FY 2007 budget proposes to continue providing preferential loan terms to victims of disaster. However, in order to contain escalating costs of these loans, the Budget proposes to adopt graduated interest rates for the Disaster loan program. Without such action the subsidy cost of disaster loans will increase 20%, over this year's rate.

During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although the interest rate caps would be eliminated. Thereafter, rates would revert to a rate reflective of a comparable Treasury instrument determined on the approval date of the loan, still a below market rate. This structure would continue to provide borrowers with deep interest subsidies when they need them most – immediately after a disaster – and after five years the subsidies would be reduced for the remainder of the loan term. The total savings to the taxpayer of this change will be $41 million in FY 2007. This change would start for disasters occurring after September 30, 2006, and will not affect loans for Hurricane Katrina.

Continued Management for Success (conclusion)

The SBA operates like the businesses it helps to succeed by continually meeting challenges and evaluating cost effectiveness. The SBA has succeeded in achieving record growth in its programs while at the same time reducing the overall budget request through focused, practical implementation of the President's Management Agenda (PMA) and related initiatives. To maintain these trends and build on the Agency's achievements, SBA's budget reflects a commitment to:

> Improving management systems and processes to ensure continued adequate stewardship of our resources;

Investing in new and upgraded infrastructure to continue benefiting from efficiencies;
Improving the efficiency and skill level of our staff through training, organizational realignment, and better human capital management strategies; and
Continuing transformation of Agency operations.

The agency is committed to continuing our mission and legacy to deliver more services efficiently to the nation's small businesses. The SBA's FY 2007 budget request does just that.