U.S. Small Business Administration

SBA

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Contact: Christine Mangi (202) 205-6948
Internet Address: www.sba.gov/news/

SBA Budget FAQs for FY 2009

1. SBA says its FY 09 request is 15 percent higher than its FY 08 appropriations, but funding for core operations is up just 6 percent. Please explain.

Both statements are correct. SBA's total new budget authority requested in FY 09 of $657 million is 15 percent higher than the enacted level of $569 million in FY 2008. Most of that difference is due to funding for disaster loans, which were not included in the FY 08 budget because the agency had sufficient carryover funds from previous years to pay for disaster lending through the current year. New funds are included in the proposal for FY 09.

The budget proposes $381.6 million for the agency's core operating costs, which include funds for daily operations, such as compensation and benefits; office operating budgets for contracts, travel, supplies, etc.; and costs for mandatory items such as rent, telecommunications, workers' compensation, etc. That is a 6 percent increase over the $359.6 million available in the budget enacted for FY 08.

The budget proposal also includes $106 million for non-credit programs, such as grants for Small Business Development Centers, SCORE, Women's Business Centers and other, smaller non-credit programs.

Also, because this is the executive budget proposal, it does not include funding for congressional initiatives inserted into the FY 08 budget by members of Congress for special projects in their home districts. The FY 08 budget enacted by Congress for SBA included $69.5 million in such earmarks.

2. Why the large increase in Disaster Loan program funding?

No funding was requested for FY 08 for the Disaster program because it was funded by carryover balances from the $1.7 billion in supplemental appropriations received in FY 06. For FY 09, a total of $174 million is requested for loans and administration under the Disaster Loan program. With carryover of program funds from FY 08 to FY 09 estimated at $150 million, the program will be able to support a loan level of $1.06 billion, the 10-year average for the program, excluding extraordinary disasters.

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3. The 7(a) fees are increasing. Isn't this an indication the program should be subsidized?

The fee is a tiny fractional cost on loans and is not a significant deterrent for entrepreneurs seeking capital. Plus, it has saved taxpayers hundreds of millions of dollars since FY 2004, the last year the program operated with a subsidy. This fee has been in the same range for all but two of the last thirteen years, and the benefits gained by the current fee structure are tremendous. These modest fees put the program on a "zero-subsidy" footing, which has freed the program from the constraints imposed by finite, limited appropriations. Most important, the program doesn't run out of money during the fiscal year.

This idea, whose inception is bipartisan – it was first proposed under President Clinton – is far more efficient for taxpayers, lenders and small businesses. The program's reliability allows lenders to aggressively market the loans and not worry about the program being shut down late in the year. It allows SBA to respond to small business demand for loans whatever that demand level reaches, and it has performed exceptionally well. Since taxpayer subsidies for the program ended at the start of FY 05, the program has set loan volume records each year. The year before, FY 04, the program had to shut down because demand exhausted the available subsidy. With a zero-subsidy funding mechanism, that should not happen again.

4. Why is there a negative subsidy rate for 504 loans? What does that mean? Can you reduce the fees to get it back to a zero subsidy rate?

The 504 loan program proposal shows a "negative" subsidy rate for the FY 09 loans because anticipated income over the life of the loans – including fees, recovery on collateral, etc. – exceeds anticipated losses in the program, according to current cost estimates. This occurs partly because of the very strong performance of 504 loans. SBA already has reduced to zero the fees over which the agency has administrative control. Other fees are set by statute, however, and cannot be reduced further except by act of Congress.

5. Is SBA's zero subsidy proposal for the Microloan program a way to eliminate it?

The agency supports the Microloan program and believes it serves markets not reached by other products. However, zero subsidy is the most effective way to run the program and protect taxpayers. In FY 07 it cost the government more than 85 cents for each new dollar loaned to a Microloan intermediary. This high cost limits the number of intermediaries which can be supported, ultimately limiting the program's impact.

By raising the very preferential rate at which intermediaries borrow from as low as 2 percent below the five-year Treasury rate to 1.3 percent above the FY 09 five-year Treasury rate, the agency can eliminate the subsidy cost of this program and greatly expand funding for Microloan intermediaries. Intermediaries will continue to receive a better than market rate of interest on loans, and SBA will be able to offer loans to virtually any eligible intermediary.

6. What kind of spread does this allow the Microlenders?

The current economic assumption for the five-year Treasury rate is 4.62 percent. Intermediaries would borrow funds from SBA at 5.92 percent (4.62 percent + 1.3 percent). They can charge

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borrowers up to 7.75 percent above their cost of funds for loans greater than $7.5K, and up to 8.5 percent above their cost of funds for loans less than $7.5K. This change will not end the program.

7. Since an elimination of technical assistance for the Microloan program has been proposed, will the agency request additional funding for resource partners who will likely have to fulfill this role?

The budget proposes eliminating the technical assistance that Microlenders provide directly to their clients because the agency's resource partners in the Small Business Development Center, Women's Business Center and SCORE programs provide that assistance much more efficiently. SBA is not seeking additional funding for those resource partners because the Microloan technical assistance workload is not much more than 2,000 borrowers per year, which is not significant when compared to the more than one million clients already counseled and trained annually by the SBDC, WBC and SCORE programs. In fact, many resource partners already provide technical assistance to Microloan recipients. The budget proposes $105 million for those resource partners in FY 09.

8. Why is SBA proposing to eliminate funding for the 7(j) technical assistance, HUBZone, and Native American Outreach programs?

The agency is not eliminating funding for these critical programs, but is requesting the funds be provided in the operating budget, rather than as a separate line item**.** SBA devotes far more resources to the 7(j) program than is reflected in the line item. The same is true for HUBZones and NAO. Total proposed FY 09 funding for these programs is: $3.8 million for 7(j), $8.2 million for HUBZones and $1.7 million for NAO.

9. In FY 08 the agency said it planned to have more field staff and Procurement Center Representatives. Has the agency done this or is that part of the FY 09 goal?

Additional staff members have been added in the loan processing and servicing areas and some field offices. In FY 08, the agency plans to hire additional PCRs, bringing the total to 66, and to fill vacancies in select understaffed field offices.

10. SBA is proposing $250,000 for its "Emerging 200" Initiative. What activities are planned and are there performance outcomes associated with this initiative?

The agency is requesting an additional $250,000 for the Office of Entrepreneurial Development to support "SBA Emerging 200," a new program designed to encourage economic growth in 10 inner cities throughout the country. SBA will provide training grants to organizations that offer a combination of capital access, business planning, government contracting, and mentorship assistance to emerging companies in the chosen cities. The companies must have a demonstrated track record of initial growth to be eligible. The goal is to create jobs and economic growth by further developing these companies through SBA programs and services once they graduate from the initial training.

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