

Myth vs. Fact
New York Times
(June 12, 2008)

Myth 1: SBA has focused on disaster assistance reform and ignored small-business concerns.

Fact: SBA has made innumerable changes, large and small, across its small business programs. Our small business loan program is gaining participating lenders, a positive sign that our simplified rules, new products, and vastly improved processes are working. We have stripped around \$10 billion of miscounted contracts from the government's small business contracting rolls, proof our transparency regimen is having a major effect. And we've targeted the delivery of core products and services in a focused way to get agency resources into those underserved communities that most need them.

While becoming easier to do business with, SBA has also worked hard to improve backroom and service operations. Our Herndon Guaranty Purchase Center a year ago had an 18 month backlog and averaged 279 days for disbursement of funds; now the excess backlog is gone and correct packages turn around in 23 days on average. The process for small and minority businesses to enter our 8(a) certification process took 145 days or longer when we inherited it; today it is 77 days. It will go down further still as we roll out new IT tools this summer. The Women's Business Center grant program had experienced reimbursement backlogs of 300 days or more; today participants receive advance payments in 48 hours using an automated payment management system with no backlogs.

In addition, the agency's financial audits are totally clean for the first time in six years and our IT security requirements have been met. SBA has been firing on all cylinders over the last two years.

Myth 2: The agency's difficulties in getting hurricane assistance to small businesses and homeowners showed years of Bush administration budget cuts had taken a toll. SBA's budget this year, \$482 million, was less than half its budget in 2001.

Fact: The \$482 million has nothing to do with the agency's disaster budget. In fact, it represents the budget to operate non-disaster programs. The disaster appropriation in 2006 for Katrina, Rita and Wilma went up to \$1.7 billion, more than four times the figure in a typical year.

The comparable operating budget figure for FY 2001 was \$487 million, not far off this year's. Comparing the operating budget for FY 2008 to the full enacted budget for FY 2001, which includes one-time additions – as The New York Times does – is extremely misleading. The analysis also fails to take into account legitimate savings achieved by structural program changes and other factors since 2001.

Myth 3: SBA needs to do more to make its government backed loans available to entrepreneurs.

Fact: SBA doesn't make loans, banks do. Therefore, this year the agency has reached out to over 1,000 lenders to promote agency reforms. We've rewritten the rulebook for SBA lenders to make it significantly shorter and easier to use. We've turned around our loan guaranty operation to ensure banks get paid quickly. We've designed two new loan products, Patriot Express and Small/Rural Lender Advantage, which are easier to use and attractive to smaller and rural lenders. Small/Rural Lender Advantage is now offered in 10 states, and will be rolled out nationwide this fall.

These reforms help explain why, for the first time in years, the number of lenders working with SBA is growing.

Myth 4: SBA has not done enough to increase loan volume and help small businesses during the credit crunch. The Senate's vote last week to add \$101 million to the agency's budget will enable SBA to provide more capital to the sluggish economy.

Fact: The \$101 million has nothing to do with SBA's loan programs; it funds other programs, mostly dedicated to contracting and technical assistance. SBA loan programs operate without taxpayer funding and are restricted only by changes in lender activity and risk tolerance, a symptom of the greater economy.

We're in middle of credit crunch and economic downturn. The lending program's recent contraction is due to three primary factors: reduced demand by small businesses; borrowers are on the whole less creditworthy; and some lenders have tightened their credit standards. Even so, 75 percent of the loan number decline this year can be attributed to cutbacks by just five major lenders.

The decline in loan volume is a trend that mirrors the experience of the broad commercial lending market. According to the National Federation of Independent Businesses, small business demand for loans is lower, but only 3 percent of the owners cited the cost and availability of credit as their primary business problem – far from the record 37 percent reached in 1982. Additionally, 34 percent reported their borrowing needs met, compared to 5 percent who reported problems obtaining desired financing (and the remainder did not want/need to borrow). Sen. Kerry has proposed an appropriation to reduce SBA loan fees, but as even The Times admits, SBA loans “carry lower interest rates and lower fees than their commercial counterparts, so that they are more attainable for entrepreneurs and small-enterprise owners.”

Myth 5: The SBA loan program has inadequate lender oversight which has resulted in a \$329 million loss in recent years.

Fact: The Inspector General report from which this claim originates was backward looking and did not reflect current conditions. The \$329 million figure reaches back 20 years and included many years during which SBA lending programs operated on a positive subsidy and therefore greater losses were expected.

Across the last two years, SBA has made major improvements in lender oversight, including:

- Implemented a sophisticated risk-based off-site review and monitoring program for every lender in our 7(a) or 504 loan programs – nearly 5,000 lenders;
- Increased substantially the number of on-site lender reviews from 55 in 2006 to 234 today;
- Issued comprehensive rules for on-site reviews; and
- Developed a lender portal to share peer and portfolio information with lenders.

SBA must balance its oversight responsibilities with its mission of getting credit into the hands of America's small businesses. When oversight becomes onerous for lenders, they reduce or discontinue their participation in our programs.

Myth 6: The agency is not doing enough to help minorities find financing and contracts.

Fact: In a recent study, the non-partisan Urban Institute found SBA programs were more effective than conventional loans at reaching minorities and women. In fact, SBA-backed loan dollars are five times more likely to go to minority-owned businesses, and four times more likely to go to women-owned businesses, than conventional loan dollars.

In FY 2007, 33 percent of SBA-backed loans went to minority borrowers and 22 percent went to women. Overall, loans to businesses in underserved markets represented more than 36 percent of loan approvals and loans to minorities have increased 20 percent since FY 2005. Last year, more than 15 percent of SBA's loans went to inner-city companies.

SBA is also helping record number of minority small businesses obtain business assistance and government contract awards. SBA is currently serving over 8,300 active 8(a) firms throughout the country, providing them technical training and counseling. The federal government has also consistently exceeded the 5 percent statutory goal for Small Disadvantage Business (SDB) averaging 6.5 percent over the past 7 years. In 2006 the government awarded \$23 billion SDB certified companies, up from \$13 billion in 2000, a 55 percent increase in contract dollars to minority businesses.

In addition, the agency has launched several underserved markets initiatives intended to increase participation in poorer rural and inner city markets. These include:

- Emerging 200, to support promising inner city businesses with targeted education to aid their growth and job-creation;
- Partnership with Operation HOPE, to provide free entrepreneurial literacy counseling in Harlem;
- In FY2007, over 103,800 women received entrepreneurial counseling and training through the Women's Business Centers, which are by design located in lower income urban and rural communities;
- Over 25 courses have been launched online covering diverse topics including finance, loan packaging, contracting, technology, and business planning, with a pace to reach over 500,000 entrepreneurs registered and assisted online this fiscal year.

In the past two months SBA has received the Initiative for a Competitive Inner City's National Inner City Economic Leadership Award for significant contributions toward the revitalization of America's inner cities.

Myth 7: SBA has not done more to help deliver a higher percentage of contracts to female entrepreneurs, even though Congress ordered it to do so eight years ago. Female business owners are pursuing legal action to force agency compliance with Congress's directive that they receive 5 percent of federal contracts.

Fact: In 2006 (the last year with published data), small businesses reached a record level of federal contracts. Contracts to women-owned small businesses (WOSBs) grew more than any other preference group, hitting a record level. Small disadvantaged businesses (generally minority-owned) hit a record level.

Enacted into law in 1994, it is a federal goal – not a binding quota – that 5 percent of federal contracting dollars go to women-owned small businesses. In 2000, a law providing for a woman-owned small businesses set-aside program was passed, but instead of Congress finding the justification for the program, it required SBA to conduct a study. The study is complete, proposed regulations to implement the program were published, with over 1700 comments received. SBA is in the process of analyzing those comments and developing the final rules.

Further, SBA does not deliver contracts. SBA is a small agency that contracts for less than \$100 million of the over \$400 billion done by the government. SBA's statutory responsibility is to work with agencies to set individual goals for their contracting opportunities that will meet the government wide statutory goals.

Myth 8: Despite SBA efforts, as part of the recent farm bill, Congress initiated its own overhaul of the disaster loan program.

Fact: SBA strongly supported the private disaster loan provision of the farm bill and helped shape much of the legislation. In addition, this loan does not supplant SBA's disaster loan. Rather, it provides a safeguard should a major catastrophic disaster require the private sector to join government in expediting funds to survivors.

SBA recently hired retired Rear Admiral Steven Smith to become the head of the newly created Executive Office of Disaster Strategic Planning and Operations. This position was created by SBA and codified in the bill. SBA delivered a revised comprehensive Disaster Response Plan over a year before the bill passed and conducted our first full simulation exercise more than a month before.

Myth 9: The most vociferous criticism has been about SBA's handling of government contracts, about \$400 billion yearly — 23 percent of that is supposed to be for small businesses. The American Small Business League (ASBL), which sued and won release of SBA data, maintains that large corporations are receiving contracts meant for small business.

Fact: The data ASBL requested was public; ASBL had received it from the General Services Administration months earlier; now, SBA has resent the same data to them again. The judge did not rule on the merits of the case. No lawsuit was required to win its release.

Since 2006, SBA has initiated reforms that have significantly reduced the large company/small business contracting issue. Those reforms include:

- Clean Data – SBA, in conjunction with the Office of Federal Procurement Policy, ordered the federal contracting database scrubbed last year to bring much greater integrity to the data. This removed \$4.6 billion from the contract database.
- Recertification – SBA tightened the definition of small business in the federal database. We estimate an additional \$5 billion-\$10 billion will be removed this year and that with these steps, the quality of data will increase measurably over time.
- Scorecard – Last year we inaugurated an important tool to hold agencies publicly accountable for their small business contracting achievements. This public scrutiny has greatly improved SBA's ability to improve small business contracting.
- Public data – The data on all contracts has long been open to the public. However, new Web resources such as usaspending.gov further improve the public's visibility into the matter. Additionally, SBA provides a snapshot of the small business data annually through its Goaling Report.

The Office of Federal Procurement Policy issued guidance to the agencies acquisition community requiring they establish and document procedures for validation and verification of contracting data contained in the Federal Procurement Data System-Next Generation, and that they attest to the data each year.

SBA, in partnership with the federal agencies, has taken great strides in improving the quality of data through data cleaning, regulations and increased transparency and accountability. These measures taken collectively will encourage agencies to provide more, genuine opportunities to small firms.

Myth 10: Last year, the agency changed its rule to require businesses to certify their size every five years to prevent large corporations from winning contracts.

Fact: Large corporations are not receiving contracts meant for small businesses. They are purchasing small businesses that have won contracts (80 percent of them won in full and open competition and not through small business set-asides).

The Times unquestioningly accepted ASBL's claims as to what SBA's recertification rules do. The recertification policy SBA implemented in 2007 does not, as ASBL insists, simply require contractors to recertify their small business status every five years. All small business contract holders must recertify within 30 days of a merger or acquisition, and on the exercise of any option.

The requirement that seems to be the source of the Times' confusion allows small businesses that are not acquired by other companies to grow for up to five years before they have to recertify their size. For current long-term contracts, a small business must recertify its small business status before it is awarded an option. As contract options are often annual, in actual practice this provision will frequently trigger annual recertification.

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