



Highlights of [GAO-08-226T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Small Business Administration's (SBA) 7(a) program, initially established in 1953, provides loan guarantees to small businesses that cannot obtain credit in the conventional lending market. In fiscal year 2006, the program assisted more than 80,000 businesses with loan guarantees of nearly \$14 billion. This testimony, based on a 2007 report, discusses (1) the 7(a) program's purpose and the performance measures SBA uses to assess the program's results; (2) evidence of any market constraints that may affect small businesses' access to credit in the conventional lending market; (3) the segments of the small business lending market that were served by 7(a) loans and the segments that were served by conventional loans; and (4) 7(a) program's credit subsidy costs and the factors that may cause uncertainty about these costs.

What GAO Recommends

In the report discussed in this testimony, GAO recommended that SBA complete and expand its work on evaluating 7(a)'s performance measures and that SBA use the loan performance information it collected, such as defaults rates, to better report how small businesses fare after they participate in the program. SBA concurred with the recommendation but disagreed with one comparison in a section of the report on credit scores of small businesses with 7(a) and conventional loans. GAO believes that its analysis provides a reasonable basis for comparing these credit scores.

www.gao.gov/cgi-bin/getrpt?GAO-08-226T. To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

SMALL BUSINESS ADMINISTRATION

7(a) Loan Program Needs Additional Performance Measures

What GAO Found

As the 7(a) program's underlying statutes and legislative history suggest, the loan program's purpose is intended to help small businesses obtain credit. The 7(a) program's design reflects this legislative history, but the program's performance measures provide limited information about the impact of the loans on participating small businesses. As a result, the current performance measures do not indicate how well SBA is meeting its strategic goal of helping small businesses succeed. The agency is currently undertaking efforts to develop additional, outcome-based performance measures for the 7(a) program, but agency officials said that it was not clear when they might be introduced or what they might measure.

Limited evidence from economic studies suggests that some small businesses may face constraints in accessing credit because of imperfections such as credit rationing, in the conventional lending market. Several studies GAO reviewed generally concluded that credit rationing was more likely to affect small businesses because lenders could face challenges in obtaining enough information on these businesses to assess their risk. However, the studies on credit rationing were limited, in part, because the literature relies on data from the early 1970s through the early 1990s, which do not account for recent trends in the small business lending market, such as the increasing use of credit scores. Though researchers have noted disparities in lending options among different races and genders, inconclusive evidence exists as to whether discrimination explains these differences.

7(a) loans went to certain segments of the small business lending market in higher proportions than conventional loans. For example, from 2001 to 2004 25 percent of 7(a) loans went to small business start-ups compared to an estimated 5 percent of conventional loan. More similar percentages of 7(a) and conventional loans went to other market segments; 22 percent of 7(a) loans went to women-owned firms in comparison to an estimated 16 percent of conventional loans. The characteristics of 7(a) and conventional loans differed in several key respects: 7(a) loans typically were larger and more likely to have variable rates, longer maturities, and higher interest rates.

SBA's most recent reestimates of the credit subsidy costs for 7(a) loans made during fiscal years 1992 through 2004 indicate that, in general, the long-term costs of these loans would be lower than initially estimated. SBA makes its best initial estimate of the 7(a) program's credit subsidy costs and revises the estimate annually as new information becomes available. In fiscal years 2005 and 2006, SBA estimated that the credit subsidy cost of the 7(a) program would be equal to zero—that is, the program would no longer require annual appropriations of budget authority—by, in part, adjusting fees paid by lenders. However, the most recent reestimates, including those made since 2005, may change because of the inherent uncertainties of forecasting subsidy costs and the influence of economic conditions such as interest rates on several factors, including loan defaults and prepayment rates.