

OLYMPIA J. SNOWE, MAINE, CHAIR  
JOHN F. KERRY, MASSACHUSETTS, RANKING MEMBER  
CHRISTOPHER S. BOND, MISSOURI  
CONRAD BURNS, MONTANA  
ROBERT F. BENNETT, UTAH  
MICHAEL ENZI, WYOMING  
PETER G. FITZGERALD, ILLINOIS  
MIKE CRAPO, IDAHO  
GEORGE ALLEN, VIRGINIA  
JOHN ENSIGN, NEVADA  
NORM COLEMAN, MINNESOTA  
CARL LEVIN, MICHIGAN  
TOM HARKIN, IOWA  
JOSEPH I. LIEBERMAN, CONNECTICUT  
MARY LANDRIEU, LOUISIANA  
JOHN EDWARDS, NORTH CAROLINA  
MARIA CANTWELL, WASHINGTON  
EVAN DAVIS, INDIANA  
MARK PRYOR, ARKANSAS

MARK E. WARREN, REPUBLICAN STAFF DIRECTOR AND CHIEF COUNSEL  
PATRICIA R. FORBES, DEMOCRATIC STAFF DIRECTOR AND CHIEF COUNSEL

## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

October 20, 2003

The Honorable Judd Gregg  
Chairman  
Committee on Appropriations  
Subcommittee on Commerce, Justice, State  
and the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Ernest F. Hollings  
Ranking Member  
Committee on Appropriations  
Subcommittee on Commerce, Justice, State  
and the Judiciary  
United States Senate  
Washington, D.C. 20510

### Re: Conference of the FY2004 CJS Appropriations Bill

Dear Judd and Fritz:

As you prepare for conference on the FY04 Commerce, Justice, State Appropriation bill or for its inclusion in an Omnibus Appropriations bill, I ask you to please consider including a number of changes regarding the funding and oversight of the Small Business Administration (the SBA or the Agency). The SBA's budget request underfunds SBA's core programs by about \$112 million. A little more than \$42 million in additional funding over what was included in S. 1585 would mitigate the damage, and some of that could be offset by cutting the Agency's excessive requests for travel and the relocation of employees. Your staffs have been extremely helpful in persuading the SBA to work with Congress, but I believe these efforts need to be reinforced with stronger, targeted measures.

The underfunding of the SBA's 7(a) Loan Guarantee Program will have severely negative consequences on small businesses. A program level of \$9.3 billion is significantly below current usage and the anticipated demand for FY2004. This year, SBA guaranteed \$11.2 billion in 7(a) working capital loans. This amount would have been much higher had SBA not put in place a cap of \$500,000 on loan size for five months of the fiscal year. As lenders in New Hampshire and South Carolina would tell you, SBA's solution of capping loans at \$500,000 scared off the private-sector, which ultimately hurt local small businesses by cutting them off from these loans that have long-terms and low monthly payments. In order for this public-private partnership to work, the program's funding needs to be as stable as possible so that the private-sector can devote resources to making this small-business capital available. Further, the House notes in its CJS report for FY2004 appropriations that SBA estimates a program level of \$8.5 billion. That estimate appears to be patently incorrect given that this year the SBA guaranteed 67,000 loans, worth \$11.2 billion net, and has set a goal of 100,000 loans for FY2004. I strongly appeal to you to appropriate a sufficient amount so that Congress does not have to intervene mid-year as it has in past years and the SBA does not resort to another harmful loan cap. I respectfully request that you consider increasing the program level from \$9.3 billion to at least \$11.5 billion.

In report language pertaining to the 7(a) Loan Guarantee Program, I respectfully ask you to

consider eliminating language regarding limits on the program level and instructions regarding the secondary market and the Master Reserve Fund. House CJS Chairman Wolf agreed on July 22<sup>nd</sup> during consideration of H.R. 2799 to eliminate the report language that states “during fiscal year 2004 guarantees of trust certificates authorized by section 5(g) of the Small Business Act shall not exceed the principal amount of \$10,000,000,000.” That language would severely restrict the flow of capital to small businesses by retarding the ability of small banks and non-bank lenders to sell loans in the secondary market. I ask you to please support the elimination of the aforementioned House language in conference. Similarly, I support the small business community’s request that any references to the Master Reserve Fund be eliminated. While we all agree that the account should be solvent, and take seriously the Inspector General’s report noted in the Senate report, there have also been several GAO reports lauding the 7(a) secondary market. Further, the Master Reserve Fund has never missed a payment. If the Senate language is retained, please consider making the SBA report on suggested corrections subject to your Committee’s “review *and* approval”. Without that protection, there is great risk and fear in the community that SBA’s changes will do more harm than good.

To the women’s business community, it is very important to fund the SBA’s Women’s Business Centers with the full \$150,000 matching grant. The Centers had to take a cut in fiscal year 2003, and that hurt their ability to raise money from other sources and forced them to cut services to women in great need of business counseling during a difficult business climate. I ask you to please consider increasing their appropriations to \$13.65 million, which would fund all 91 centers at \$150,000.

For the micro-businesses, which are the largely owned by Americans with the least access to economic opportunity and to affordable capital in this country, I ask that you consider more funding for SBA’s microloan and PRIME programs. For the SBA microloan program, the Administration only requested \$15 million in technical assistance (TA) grants, which does not even cover the \$17 million needed to service the existing loans. To make sure there is money to protect these investments and technical assistance for new loans, I ask that you consider raising the microloan TA funding from \$15 million to \$20 million, and the loan program level from \$20 million to \$25 million. The loans would require \$2.4 million in budget authority, which is less than the \$3.7 million that SBA has requested for its staff travel. For the PRIME program, I ask that you support the House level of \$5 million.

As with the PRIME program, I ask you to consider supporting the House funding levels of \$89 million for the Small Business Development Centers and \$500,000 for ProNet. However, for the Small Disadvantaged Business program, I support the small business community’s preference for the Senate recommendation of \$1.5 million, and I ask that you and the other conferees include this line item in the final bill.

In the report to S. 1585, I strongly support the limit on selling disaster loans from Alaska and ask that the limit be expanded nationwide in the conference report. In conjunction with the instruction that the SBA create of a new position to focus on the Native American communities, I ask you to also consider directing the Agency to fill two long-vacant positions in its Office of

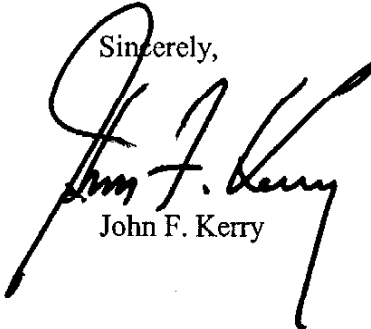
Technology. The responsibilities of the office have doubled and the staffing has been cut in half. This risks mismanagement in a very valuable program area.

Also in the report to S. 1585, and the bill itself, the Senate generously gives the Agency authority to reprogram funds. I strongly urge the Committee to either eliminate this authority or greatly restrict it in conference and require approval for any reprogramming of funds. SBA has abused its reprogramming authority, short-changing important benefits to small business, like microloan technical assistance and new markets venture capital investments while magically finding money for employee buyouts and transfers.

Last, I ask that the conference report include language reinforcing the requirements of section 7(a)(25) of the Small Business Act which limits loan pilots to 10 percent of the number of loans guaranteed in the last fiscal year. Year after year SBA has violated this, draining guarantee dollars from the 7(a) loan program by making as much as 60 percent of 7(a) lending authority in pilot programs like SBA Express. Compliance is increasingly critical since SBA does not request adequate funding for this valuable program.

Time and again, you both have supported important small business programs and I thank you and your staffs for your consistent help. Once again, I seek your help in assuring that small businesses have available the assistance they need to weather these tough economic times. Please refer any questions to Ms. Kevin Wheeler of my Committee staff at 224-3722.

Sincerely,

A handwritten signature in black ink, appearing to read "John F. Kerry". The signature is stylized with a large initial "J" and a long, sweeping underline that extends to the right.

John F. Kerry