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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

January 7, 2004

### VIA FACSIMILE & FIRST-CLASS MAIL

The Honorable Hector V. Barreto  
Administrator  
Small Business Administration  
409 Third Street, S.W.  
Washington, D.C. 20416

Re: Abrupt Shut Down of the SBA's Largest Small-Business Lending Program without Statutorily Required Notice.

Dear Administrator Barreto:

As the office was closing last night, the Committee received an email from your staff announcing that SBA was immediately instituting a "lending holiday" for the 7(a) Loan Guarantee program.

On behalf of the nation's small business borrowers, the lenders who provide these loans on behalf of the SBA, and as Ranking Member of SBA's Senate oversight committee, I strongly object. The Committee has been given no evidence that the Agency is out of money, and neither the Agency's letter of December 23, 2003, advising the authorizing committees of the Agency's intent to institute a cap on 7(a) loans as of January 8<sup>th</sup> and to prepare for a hiatus in guarantee issuance, nor the email sent last night, officially shutting down the program, meet the test of notification as required by law. It is unnecessary for the Administration to close down the program when the SBA has the discretion to reprogram money to continue guaranteeing small business loans. That would keep the program running until Congress comes back into session, at which time the Administration could send up a request for supplemental funding to permit the program to meet the projected demand throughout the remainder of fiscal year 2004.

Not only should it be unnecessary to shut down the program, it should be unnecessary to cap loan size. Both could have been avoided had the Administration requested adequate program levels and budget authority in its FY 2003 and FY 2004 budgets, and had the Administration acted in a timely way to adjust to the growing demand for 7(a) loans, which has been evident over the past few months and years. For example, last year, FY2003, the program was in danger of running out of money and the Agency imposed a loan cap, and at the end of the year, demand was so high that the SBA issued a press release on October 10, 2003, boasting of more than a 30 percent increase in 7(a) lending in FY2003.

Administrator Hector Barreto  
January 7, 2004  
Page Two

That 30 percent increase was in spite of artificially depressed volume caused by the aforementioned loan cap, a significant one that reduced the maximum loan size from \$2 million to \$500,000, and was in place for almost half the year.

Instead of taking action to avoid repeating past funding problems, in testimony before this Committee, the Administration has repeatedly criticized the industry's projections as excessive and dismissed concerns about the program running out of money. Consequently, when the higher estimates have been realized, Congress has been forced to bail out the Administration each year with additional appropriations and emergency legislation. I call upon you to reprogram money immediately in order to get small businesses the loans they are waiting for, and to reprogram money that does not hurt the other programs vital to small businesses. To avoid repeating a shortfall in FY2005, the President's budget should request a program level and budget authority that funds the 7(a) loan program to reflect the past few years of growing demand. A reasonable program level would be at least \$13 billion.

Mr. Administrator, as you know from your extensive travels around the country, the SBA's 7(a) Loan Program is one of the largest sources of long-term lending to small businesses in this country and the source of more than 347,000 jobs created last year. We cannot afford for this program to be shut down or crippled. As I have done repeatedly in each of the past three years, I am willing to work with the Administration and my Congressional colleagues to help the SBA make sure the 7(a) loan program is successful.

With respect to loans that are already in the SBA processing "pipeline," and contrary to the direction issued in the Policy Notice (No. 0000-1707) that the SBA released last night, the Agency should not return or destroy any loan applications it receives. The Agency should hold the loans and date when they are received so that the Agency can process the loans in the order received once the program is again operating and guaranteeing loans. This approach is fair and does not penalize those who have pending applications.

In order to get the facts regarding this situation, please have delivered to my Committee office (Senate Russell Office Building, room 442) by noon on Thursday, January 8, 2004, the following information regarding *all* loans made under Section 7(a) of the Small Business Act, including the SBA Express pilot program loans and the Supplementary Terrorist Activity Relief program loans:

1. Broken down by business day, for the months of January and December 2003, and January 2, 5, and 6, 2004:
  - a. Total number and dollar amount of loans for applications submitted;
  - b. Total number and dollar amount of loans approved; and,
  - c. Total number and dollar amount of loans disbursed.

Administrator Hector Barreto

January 7, 2004

Page Three

2. On which date any office with the Agency returned applications.
3. For FY2003, the average daily rate of 7(a) lending for loans approved.
4. For FY2003, the average daily rate of 7(a) lending for loans disbursed.

Thank you, in advance, for your prompt cooperation.

Sincerely,

A handwritten signature in blue ink, appearing to read "John F. Kerry". The signature is stylized with a large initial "J" and "K".

John F. Kerry  
Ranking Member

cc: Senate Committee on Appropriations,  
Subcommittee on Commerce, Justice, State and the Judiciary