



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

JUL 01 2005

OFFICE OF THE ADMINISTRATOR

The Honorable John Kerry
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Senator Kerry:

Thank you for your June 3, 2005 letter regarding the U.S. Small Business Administration's (SBA) 7(a) program and its LowDoc component.

LowDoc began as a pilot within the 7(a) program in the early 1990's. One of the primary purposes of the pilot was to encourage lenders to make smaller loans, those under \$150,000, by reducing the amount of paperwork that the lender was required to submit to SBA while maintaining an 85 percent guarantee. The LowDoc relationship is between the SBA and the lender. The small business borrower must still submit the same amount of paperwork to a lender as it would for a non-LowDoc loan.

Since the early 1990's, the lending industry has evolved to meet the needs of the small business customer. This evolution has included SBA lending. All 7(a) loans under \$150,000, with the exception of SBAExpress, carry an 85 percent guarantee and will continue to do so. Moreover, Community Express loans not only have an 85 percent guarantee, but they also include a technical assistance component.

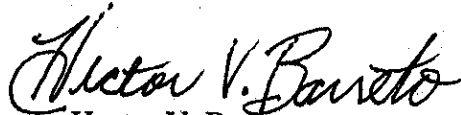
LowDoc has the highest delinquency, liquidation and purchase rates of any of the SBA 7(a) loan delivery products, thus producing a negative effect on the overall 7(a) loan program, which results in higher fees to small business borrowers and lenders. By eliminating LowDoc, SBA can keep 7(a) borrower and lender fees lower.

SBA's efforts to offer improved 7(a) loan delivery products have resulted in a steady decline in lenders' use of LowDoc from 26 percent in Fiscal Year 1999 of the overall 7(a) loan program to 7 percent as of May 31, 2005. Although the number of loans approved under LowDoc has declined over the past six years, SBA continues to break annual records for the total number of 7(a) loans under \$150,000.

Small, rural, non-preferred (Preferred Lenders Program) and non-SBA Express lenders will continue to be able to assist their small business customers through the SBA standard

7(a) loan processing, which will require somewhat more paperwork for the lender but no added burden for the small business customer. LowDoc is not a significant source of loans to rural communities. For Fiscal Year 2005 (thru 5/31/05) the number of rural loans accounted for only 2.6 percent of total 7(a) loans and 1.5 percent of total 7(a) dollars.

Sincerely,

A handwritten signature in cursive script that reads "Hector V. Barreto". The signature is written in black ink and is positioned above the printed name and title.

Hector V. Barreto
Administrator