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United States Senate

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

WESTON J. COULAM, REPUBLICAN STAFF DIRECTOR
NAOMI BAUM, DEMOCRATIC STAFF DIRECTOR

November 1, 2005

Honorable Frank Wolf, Chairman
Appropriations Subcommittee on Science, State, Justice and Commerce
Room H-309, The Capitol
Washington, DC 20515

Honorable Alan Mollohan, Ranking Member
Appropriations Subcommittee on Science, State, Justice and Commerce
1016 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Shelby, Chairman
Appropriations Subcommittee on Commerce, Justice, and Science
Room S-146A, The Capitol
Washington, DC 20515

The Honorable Barbara Mikulski, Ranking Member
Appropriations Subcommittee on Commerce, Justice, and Science
144 Dirksen Senate Office Building
Washington, DC 20515

Dear Chairmen Shelby and Wolf and Ranking Members Mikulski and Mollohan:

We are writing to urge you to include in the CJS-SSJC Conference two amendments that were passed by Congress to make the Small Business Administration's largest loan program affordable and to keep the fees fair. S.A. 1724 requires the SBA to reduce fees on borrowers and lenders when the Agency overcharges the participants and there is excess funding or appropriations to run the program. H.A. 255 provides \$79 million for backing the small business loans to make the capital more affordable.

We believe that our small businesses are best served by a 7(a) loan program that operates as a public-private partnership, and that providing this funding, instead of putting all the cost on the borrowers and lenders, will enable our communities to reap the benefits. Year after year, this program has generated billions of dollars in small business development, fueled job creation, and generated tax revenue. According to the SBA, in FY 2004, the most complete data available, small businesses in the states of Alabama, Virginia, Maryland, and West Virginia received almost \$500 million in SBA 7(a) loans, creating an estimated 20,000 jobs.

Not only have these loans contributed to the economy, but the program has largely paid for itself. From fiscal years 1992 through 1998, Congress appropriated close to \$1.4 billion to run the program, and the lenders and borrowers paid \$1.3 billion more than necessary in fees to participate in the program. Though the GAO has not updated the study that identified the overpayments to Treasury, we know the

overpayments have grown, in spite of a new accounting system implemented in FY 2004 that SBA contended would be more accurate. In the President's budget last year, it revealed that the new accounting system had miscalculated the cost of the program by *69 percent*, amounting to \$42 million in excess funding. And instead of the budget restoring that money to the program to reduce fees, the budget provided *no funding* for the SBA's largest loan program and *raised the fees*. The language from S.A. 1724 must be retained in conference if the Congress is to maintain any credibility in standing for fairness and for improving the climate for small businesses to start and grow in this country.

Equally important to keeping the SBA's largest loan program affordable is retaining H.A. 255, which provides \$79 million in funding. Without the SBA, many small businesses are unable to access affordable capital, often turning to high-cost forms of financing, such as credit cards. As a result, entrepreneurs are less able to invest in their business, hire new employees, or develop new products. Filling the void for affordable financing is the 7(a) program, which provides 30 percent of all long-term, small business financing.

Unfortunately, starting in FY 2005, the complete cost of the program was shifted to small businesses and their community lenders. As a result, small businesses are being forced to pay substantial upfront fees to use the program. For smaller loans less than \$150,000, fees have doubled, which translates into nearly \$1,500 more in upfront closing costs for entrepreneurs. For a loan of \$700,000, this raised the fees by approximately \$3,000.

Exacerbating these rising program costs has been the recent string of interest rates increases. Because interest rates for commercial loans are variable, rather than fixed, these higher interest rates are being passed onto business owners. As a result of these fee increases and the rising interest rate environment, many small businesses are unable to access the capital they need to hire new employees or expand their operations.

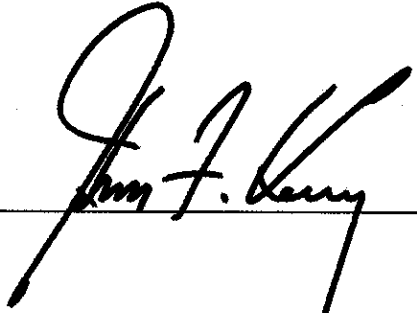
By shifting the program's full cost to businesses and their lenders, the SBA has scaled back the reach of the 7(a) program. One such initiative that was discontinued on October 1, 2005 was the LowDoc program, which enabled smaller banks to make loans in rural communities.

Concerns have also been raised about the affect that the Gulf Coast hurricanes will have on the 7(a) portfolio and ultimately the cost of the program. The SBA's 7(a) loan portfolio contains more than \$1.5 billion in 7(a) loans that were made to businesses in hurricane-affected regions. Due to the economic challenges created by the recent hurricanes, as well as new challenges created by Hurricane Wilma, it is likely that a considerable amount of these loans will default, causing the 7(a) program's overall cost to rise. Without a sufficient appropriation, it is probable that the program's fees will be further increased, that a cap will be imposed on loan size, or, in the worst case, that the program will be shut down all together. By restoring funding for the 7(a) loan program for FY 2006 at the FY 2004 level, Congress can ensure that small firms maintain unimpeded access to affordable business financing.

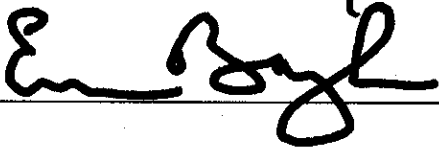
We recognize your commitment to our nation's small businesses and appreciate your efforts in supporting the SBA's 7(a) loan program. In closing, we ask once again that you include the provision to protect

small businesses and borrowers from overcharging from the government, and also the provision providing \$79 million in funding. Thank you.

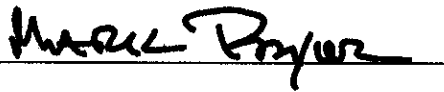
Sincerely,



Tom F. Kelly



Eric Boyl



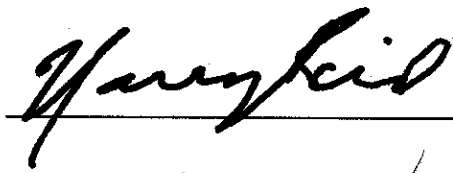
Mark Boyer



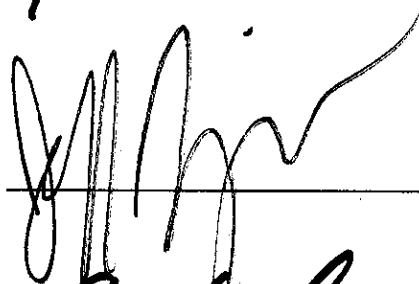
Tom Hark



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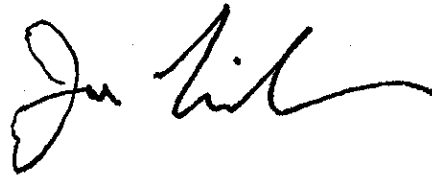
Gary Keid



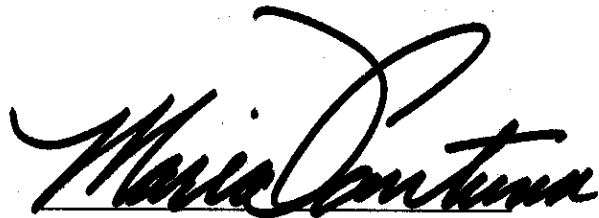
Mark



Carl Levin



Jim



Maria Antonina