

**SBA Response to *The New York Times*'  
"Small Business Not as Usual"  
(5/31/07)**

*The New York Times*' "Small Business Not as Usual" (5/31/07) repeats a number of familiar charges against SBA that we feel do not hold much water. As these charges keep coming back in spite of agency fact sheets meant to clarify the record, we take this opportunity to address the facts.

The article's main thrust is that post-2004 loan fee increases and poor service due to budget and staffing cuts have caused borrowers to drop out of SBA's loan programs.

This premise is flat-out wrong. Due to the hard work of SBA district offices and Capital Access personnel, SBA loans have set new records in the last two years, both in number of loans made and total dollars lent. If *The Times* gave this fact proper weight it would have run a positive story under the headline, "Despite Fee Increases, Staff and Budget Cuts, SBA Loans Set New Records."

Instead, the story buries the fact that *more* borrowers are receiving *more* SBA loans than ever before in a single short sentence tacked on to the end of the tenth paragraph, and then returns to paragraph after paragraph alleging that "fee increases" and staffing cuts are driving borrowers away.

The very fact that *The Times* refers to "fee increases" indicates a lack of understanding of SBA's history. Fees have been virtually flat for the last 22 years. In 2002, Congress temporarily reduced fees for two years in the wake of 9/11. In 2005, the fees returned to their normal level, as expected. So, an essentially flat fee level since 1985 is called an increase.

*The Times* own graphic contradicts its claim that fees are hurting SBA's loan program. The graph, which is strangely labeled "Small Business Loans Stay Static," show that SBA-backed loans *increased* from \$14.4 billion and \$17.6 billion during the two years when fees were reduced to \$20.3 billion in each of the two years since the fees returned to their normal levels.

*The Times* attempts to link "increased fees" to the trend towards smaller 7(a) loans, writing, "While fees for the loans have increased, the average size of the loans . . . has decreased." But as the article noted three paragraphs earlier, the restored fees most affect the smallest loans; fees for the largest loans were unchanged. If fees mattered, the average loan size would have gone up, not down.

The real story behind the trend towards smaller loans has been the great success of the agency's *SBAExpress* loan program. One of the challenges in getting banks to participate in small-business lending is that banks make more money on larger loans, but their time and processing costs are just as high for small loans. *SBAExpress* allows banks to make smaller loans with minimal paperwork and processing. Because of *SBAExpress*, small businesses can now find banks willing to lend the \$35,000 or \$50,000 they need for improvements. The average size of an SBA-backed loan has dropped because of the explosive growth of *SBAExpress*, even as the total number and dollar amount of loans has continued to rise. While *The Times* does acknowledge *SBAExpress* as "part of the reason" for the drop in average loan size, "increased fees" is the main culprit.

Meanwhile, since SBA ended taxpayer subsidies for the 7(a) program (or, as *The Times* says, “cut funding to the program”), bank now market SBA loans much more aggressively because those loans are reliably available since they do not require congressional appropriations to operate. And, of course, the fees cover the costs of SBA’s loan guarantees and save taxpayers more than \$100 million dollars each year, a positive that goes unmentioned by *The Times*.

In paragraph 13, *The Times* claims that, “because of the higher fees, many entrepreneurs have turned to a growing credit card market.” It mentions an association survey that found that, “the overwhelming majority of small businesses use credit cards for their financing instead of SBA or other bank loans.” *The Times* fails to mention that in recent decades the overwhelming majority of small businesses have *always* used credit cards for their financing.

*The Times* clearly does not understand that SBA’s loan fees are not paid up front, but are financed over the life of the loan. The difference between the temporary two-year reduced fees and SBA’s historically normal fees over the life of a typical seven-year loan is less than \$20 per month. It is silly to suggest that an entrepreneur will decide not to take a bank loan over \$20 a month, and instead borrow on a credit card and pay as much as 10 percent more.

One of the most unfortunate aspects of *The Times*’ SBA coverage is that it relies on a recurring cast of critics and prints their claims, even when their comments seem inconsistent. A quote from one in paragraph 14, “the decrease in the size of [SBA] loans is certainly a detriment to small companies,” seems at odds with the critic’s claim in the previous paragraph that entrepreneurs are getting too few small loans from SBA.

The same critic is *The Times*’ source for concluding that bank participation in SBA loan programs has dropped primarily because of “fees and other changes in the 7(a) program.” Paragraph 12 notes that the number of participating banks, as measured by the critic, dropped nearly in half from 2001 to 2006 but neglects to remind the reader that fees in 2006 were the same as they were in 2001. Further, the number of participating banks continued to fall through 2003 and 2004, *when fees were reduced*.

There are, in fact, three main reasons fewer banks participate in SBA loan programs, none of them related to fees. First, mergers have reduced the number of banks nationwide to half the number 30 years ago. Second, SBA made a ‘scoring’ change after 2001 – we used to count a bank operating in multiple states as a separate bank in each state. Now it is just one bank, nationwide. Third, due to its high default rate and fraud risk, SBA scrapped the “Low Doc” loan program, which was widely used among small community banks.

Again, unmentioned by *The Times*, the number and dollar amount of small business loans continued to go up every year – except from 2002 to 2003, the one year fees were reduced!

Another error comes in paragraph nine: “The SBA has also proposed raising the fees in its microloan program, which can be used for construction and expansion of facilities. Together these loans totaled \$20 billion in 2006, according to the SBA.”

‘Construction and expansion of facilities’ loans can only be financed with 504 loans, not Microloans. The \$20 billion is the grand total of 7(a) plus 504 loans in 2006. In fact, Microloan volume in 2006 was a tiny \$33 million.

SBA has proposed zero-subsidy for Microloan, which would raise fees because as currently structured it is one of the least cost-effective programs in the federal government, costing

taxpayers nearly a dollar for every dollar loaned. Our efforts to remove the Microloan program subsidy are based on the success of the 504 and 7(a) programs operating subsidy-free.

According to *The Times*, “reduced staffing levels at the agency have had a profound effect on small business . . . the biggest area where staff cutbacks are hurting small business is in helping to gain access to \$400 billion in federal contracting.” *The Times* goes to great lengths to suggest that staff cuts are a recent phenomenon introduced by the current administration. In five separate paragraphs *The Times* refers to staff cuts since 2001. Nowhere does the article mention that SBA staffing has been trending down for the last 25 years. In fact, staff reductions during President George W. Bush’s administration have been almost identical to those under President Bill Clinton.

*The Times* relies on a partisan study to say that because of agency staff cuts, “...small businesses lost more than \$12 billion in contracts because of miscoding: the contracts went instead to giant corporations like Wal-Mart and Google, among others.”

*The Times* repeats a common myth that Fortune 100 firms have been awarded small business contracts because of fraud or miscoding. This is simply not true (see SBA’s recent contracting myth/fact sheet, distributed weeks before *The Times* story).

Large firms are listed with small contracts because they purchased the small companies that originally received the contract. Under long-standing federal procurement regulations, whenever a small business contract is awarded, it is ‘scored’ as such for the life of the contract, even when the original small business is purchased by a large firm. These regulations made sense when a typical contract was three years or less. Contracts today are often ten to twenty years with options. SBA has proposed new ‘re-certification’ regulations, that go into effect this June 30<sup>th</sup>, that will end the practice of counting to count a small business contract when a large firm purchases a small business.

Miscoding does exist. Every year, 5.5 million government contract actions are recorded in a federal database: even if 99.8 percent of all actions were coded correctly, over 11,000 would still be in error.

Some large businesses, which competed for and won contracts as large businesses, were subsequently incorrectly coded as small. If not corrected, the miscoding would artificially inflate the end-of-year small business numbers for contracting federal agency. But no small business set-aside contracts have been awarded to large firms because of miscoding.

Today, SBA is working across the federal government to eliminate miscoding. Starting this year, SBA will publish a scorecard evaluating each federal agency’s efforts to contract with small business, including rating the accuracy of their data.

Everyone in SBA is aware that SBA’s success in doubling the number of new small business loans we support each year, and doubling the amount of government contracts going to small businesses, has put tremendous and unequal strain on SBA’s smaller staff. That is a legitimate issue to discuss.

For example, SBA’s disaster loan processes were overwhelmed by Hurricane Katrina. Less than a year ago, 160,000 approved loans to hurricane victims were still stuck in a backlog. SBA re-engineered that process. Today, the backlog is gone and \$5.6 billion is at work rebuilding lives

and communities in the Gulf. On June 1<sup>st</sup>, SBA announced its new Disaster Recovery Plan, designed to ensure that SBA can effectively respond in the event of another catastrophic disaster.

Over the last several months, at the instigation of Administrator Steve Preston, we have identified where the significant stress points are in the agency, and are taking action to address them.

Customer service is one of Administrator Preston's priorities. Another is accountability and responsibility, which includes admitting shortcomings and moving to resolve them. Last winter, SBA had to divert staff from other functions in order to complete our annual review of all 8(a) firms. Even as loan volumes continue to increase we are not yet meeting our customer service or processing time goals for loans and contracts. Our lending SOP is unreadably long at 800 pages, and years out-of-date.

The SOP is being rewritten. A new loan product to help veterans, service members, reservists and their families will be announced in June. SBA is adding staff in a few key areas, among them procurement center representatives, loan processing and lender oversight. Most importantly, we are investing in our people, with more and better training, and finding ways, wherever possible, to streamline the process for our customers.

Despite challenges, SBA continues to provide more loans and more contracts to more small businesses every year. We have eliminated the Katrina backlog and are dramatically reforming and streamlining the agency in almost every area. For some in the press, good news just isn't fit to print.

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