



NEWS RELEASE

PRESS OFFICE

Release Date: November 1, 2007
Advisory Number: 07-76

Contact: Christine Mangi (202) 205-6948
Internet Address: www.sba.gov/news/

Background on SBA Loan Program Hearing before the Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management

History

The 11/01/07 hearing before the Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management is based on a recently-issued GAO report on the effectiveness of SBA's lending programs. The hearing centers on the question of whether SBA's programs are effective at assisting small business.

At a similar hearing last year, one researcher argued that SBA's programs were not effective, and only reached a very small portion of the small business credit market. At this same hearing however, lending industry representatives testified that SBA's programs support roughly 40% of the long-term credit needs of the small business community.

GAO report

GAO's report found SBA loans assist segments of the market that are generally underserved by the lending community, particularly women, minorities and start-up businesses. GAO also found that SBA loans tend to be larger than conventional loans, and have variable rates, longer maturities and higher interest rates. However, GAO recommended that SBA develop performance measures to gauge the effectiveness of SBA loan programs. The report stated that most SBA measures were output based rather than outcome based (i.e. they didn't tend to track the effect of receiving the loan on the survival of the small business borrower).

GAO also found the costs or risk of these loans has tended to be lower than originally anticipated. This supports SBA's view that SBA loans -- made to those unable to find "credit elsewhere" -- go to credit worthy borrowers overlooked by the market.

The Urban Institute Study

Three years ago, SBA commissioned the Urban Institute to study the effectiveness of SBA lending and its value to underserved communities. Among the reasons for this study was the need to establish a beginning "baseline" for determining the outcomes that could be achieved through the SBA's various lending programs.

(---MORE---

Among the UI's findings were:

- 7(a) and 504 guaranteed loans were more likely to be made to women or minority-owned businesses and start-ups than conventional small business loans.
- 7(a) and 504 guaranteed loans are, on average, made to small businesses with fewer employees and lower annual sales revenue than conventional small business loans.
- 7(a) and 504 guaranteed loans have longer average maturity terms than conventional loans.
- For variable rate loans, SBA's guaranteed borrowers pay a higher average interest rate than conventional borrowers.

These findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit-elsewhere." SBA's lending programs offer small businesses longer maturity terms than are typically offered in the conventional market. SBA borrowers pay higher interest rates to access this credit, indicating that they were not able to find financing at a lower rate.

These data points show that SBA's programs offer a conduit to credit-worthy borrowers who are unable to obtain financing through conventional means.

###