

APPENDIX 6 – SBA’S ACTIONS IN RESPONSE TO OMB’S PART EVALUATIONS

Strategic Goal 2	
<i>Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.</i>	
Program Name	Section 7 (a) Guaranteed Loan Program
Ratings	FY 2004 Adequate
Major Findings	<ul style="list-style-type: none"> • The Agency has developed meaningful outcome goals for the program but results will take several years to measure. • While different in structure, the 7(a) program overlaps with the SBA's Section 504 program in that both can provide long-term financing for the same borrowers. The program also overlaps, to some extent, with other Federal Agency credit programs. • SBA's defaulted loan purchase and liquidation processes needed better controls. • Further evaluations are necessary to ensure that the program complements rather than competes with private-sector loans. • The Agency has demonstrated improved efficiencies in achieving program annual goals.
Actions Taken/Planned	<p>In response to these findings:</p> <ul style="list-style-type: none"> • The Agency is developing baselines for its outcome measures. • SBA consolidated the loan liquidation function from 69 District Offices to a single center in order to reduce costs and ensure consistency in processing. • SBA is identifying other loan management strategies to further reduce administrative costs. • Legislation was successfully enacted in FY 2005 that eliminates the credit subsidy cost for providing loans. However, the Agency continues to incur administrative costs related to managing loans. • SBA is conducting a program evaluation that includes an assessment to ensure that loans supplement rather than supplant credit available in the private markets.
Program Name	SCORE
Ratings	FY 2002 Moderately Effective
	FY 2003 Moderately Effective
	FY 2004 Moderately Effective
Major Findings	<ul style="list-style-type: none"> • The program has successfully brought together volunteers with entrepreneurs for mentoring. • Due to the use of volunteers, the cost per client under the SCORE program was low relative to similar programs. • While client satisfaction is high, there are no other data to show that the program has resulted in long-term benefits to recipients.
Actions Taken/Planned	<p>The program has taken a number of steps to address deficiencies identified through the initial PART assessment:</p> <ul style="list-style-type: none"> • SBA developed a new strategic plan with meaningful annual and long-term outcome-oriented measures. The program now has clear goals from which to assess performance. • SBA has developed a standardized evaluation strategy for all of its technical assistance programs. The results of the first phase of the longitudinal survey became available in FY 2005. To further improve the program, SBA will continue evaluating the program's performance and make program changes as warranted. The Agency's budget includes requests of funding for evaluations.

Program Name	Small Business Development Centers
Ratings	FY 2002 Moderately Effective
	FY 2003 Moderately Effective
	FY 2004 Moderately Effective
Major Findings	<ul style="list-style-type: none"> An independent evaluation of the program found that each \$1 spent on counseling resulted in \$2.78 in tax revenue. Funds are allocated to SBDCs based on formulas rather than performance. In addition, the hourly cost of counseling services varied significantly among SBDCs without any evidence that the quality of services or outcomes differed.
Actions Taken/Planned	<p>The program has taken a number of steps to address deficiencies identified through the initial PART assessment:</p> <ul style="list-style-type: none"> In response to initial findings that the program did not have adequate performance measures, SBA developed a new five-year strategic plan with meaningful annual and long-term outcome-oriented measures. The program now has clear goals from which to assess performance. The original PART assessment found that the Agency lacked independent evaluation data to assess the impact of the program. SBA has developed a standardized evaluation strategy for all of its technical assistance programs. The results of the first phase of the longitudinal survey became available in FY 2005. To further improve the program, SBA will continue evaluating the program's performance and make program changes as warranted. The Agency's budget includes requests of funding for evaluations. SBA has proposed legislation that would make lead center grants competitive to help ensure promulgation of best practices. Implementation would help address concerns that have resulted in a low program purpose rating.
Program Name	Small Business Investment Company
Ratings	FY 2002 Moderately Effective
	FY 2003 Adequate
Major Findings	<ul style="list-style-type: none"> The Federal Government's financial returns are not proportional to its investment. SBA invests up to two-thirds of total funds but receives only about ten percent of SBICs' profits. Given the rapidly mounting losses in the SBIC portfolio, the cost to the Federal Government is now projected to be about \$2 billion on an outstanding portfolio of about \$5 billion. SBICs do not have adequate incentives to pay back funds expeditiously. Under current statute, SBICs make "profit" payments to SBA but these are generally insufficient to fully repay the original principle investment promptly. The assessment also confirmed that the subsidy model underestimates the cost of the program. The technical assumption (e.g., defaults, recoveries, and profits) have been more optimistic than actual performance. The estimation methodology should also be reexamined to try to capture more accurately fluctuations in the economy. The Debenture program also has had large losses, despite forecasts of zero taxpayer subsidy.
Actions Taken/Planned	<p>The Small Business Investment Company Participating Securities program ceased making new guaranteed investments on October 1, 2004, as sufficient borrower fees were not enacted. With realized and projected losses exceeding \$2.2 billion, the FY 2006 Budget does not propose continuation of this program. However, the FY 2006 Budget supports \$3 billion in new guaranteed investments for the Small Business Investment Company Debentures program. Note: Appropriated funding amounts represent administrative expenses to continue program oversight and risk management. Subsidy costs are funded through borrower fees rather than appropriations.</p>

Program Name	Section 504 Certified Development Company Guaranteed Loan Program
Ratings	FY 2002 Adequate
	FY 2003 Adequate
Major Findings	<ul style="list-style-type: none"> • 504 loans differ in structure from the Small Business Administration's (SBA) 7 (a) General Business loans. Nonetheless, the program overlap in that they both provide long-term financing for the same potential borrowers. • Inadequate competition among intermediaries resulted in limited loan availability in some geographic areas. • Further evaluations are necessary to ensure that the program complements rather than competes with private-sector loans • Lenders' and intermediaries' incentives to properly manage SBA Section 504 loans may be negated by the structure of the program; lenders receive the first lien on borrower assets and program intermediaries receive a 100% guarantee from SBA.
Actions Taken/Planned	<ul style="list-style-type: none"> • SBA has changed servicing requirements so that intermediaries will be responsible for loan liquidations in the event of default. • The Agency issued regulations that remove barriers to competition among certified Development Company program intermediaries. • SBA is conducting a program evaluation that includes an assessment to ensure that loans supplement rather than supplant credit available in the private markets.
Program Name	Business Information Centers
Ratings	FY 2002 Results Not Demonstrated
Major Findings	<ul style="list-style-type: none"> • There are no data to show that the program has resulted in long-term benefits to small businesses. • Based on SBA's cost allocation data, the Agency spent approximately \$14 million to manage and support the \$475,000 in grants • The program is duplicative of services provided by Federal, State, and non-profit entities. These services include access to technology and research resources.
Actions Taken/Planned	<ul style="list-style-type: none"> • While grants under the program have totaled \$500,000 or less per year, SBA's administrative costs for managing the program exceed \$10 million annually. Terminating the program will allow SBA to redirect resources to more efficient technical assistance programs. • The Administration has terminated the BIC program and redirected resources to more efficient technical assistance functions.

Strategic Goal 3

Restore homes and business affected by disaster

Program Name	Disaster Loan Program
Ratings	FY 2002 Moderately Effective
	FY 2003 Moderately Effective
	FY 2004 Effective
Major Findings	<ul style="list-style-type: none"> • The program complements rather than duplicates other disaster assistance programs. • SBA lacked reliable credit models for measuring the Federal government's costs. • Loan making costs, due to fraud prevention, are high.
Actions Taken/Planned	<p>The program has taken a number of steps to address deficiencies identified through the PART assessment:</p> <ul style="list-style-type: none"> • SBA has developed a new loan-level subsidy model that better reflects taxpayer costs for the program. • SBA has developed a new, long-term strategic plan. • SBA will continue to measure the program's performance against newly developed performance baselines and the Administration will review options for reducing loan administrative costs through technological advances and streamlining the loan-making process.