U.S. Small Business Administration

PROGRESS REPORT

U.S. SMALL BUSINESS ADMINISTRATION

April 29, 2009

Summary:

The U.S. Small Business Administration has moved quickly to implement key provisions of the Recovery Act to ensure that small businesses are a key driver in the nation's economic recovery. These provisions – aimed at restarting lending and getting much-needed capital in the hands of small business owners – are already having an impact, with the agency seeing average weekly loan volume in its 7(a) and 504 loan programs increase by about 25 percent and more than 300 lenders who had not made a loan since October 2008 made 7(a) loans. The agency has also taken a lead role in collaboration with the U.S. Department of Treasury and others to ensure that the federal government's response to the current economic crisis is benefiting small businesses.

The agency has also taken significant steps to strengthen the agency's oversight capacity to protect taxpayers from fraud and abuse. Additionally, SBA Administrator Karen G. Mills has included among her top priorities investing in the agency's staff and strengthening the information technology infrastructure to ensure the agency is effectively and efficiently administer its programs and increasing access to those programs, especially in this tough economic climate.

Overview Section

Karen G. Mills was sworn in as the U.S. Small Business Administration's 23rd Administrator on April 6. Upon her confirmation, she outlined three top priorities:

1) Move quickly to implement the plans laid out in the Recovery Act and get capital moving again through the core SBA loan programs;
2) Reinvigorate the agency by investing in the agency's staff through training and professional development, attracting a strong and passionate leadership team, and strengthening in the information technology the agency needs to operate; and,
3) Act as an advocate for small business across the Obama Administration to ensure that the federal government is the real partner small businesses need at this time to be a key driver in the nation's economic recovery.

These priorities are all the more significant given the SBA of January 2009 reflected years of budget cuts, which led to a lack of investment in staff and the critical systems needed to carry out its mission. As a result, employee morale has been low (the 2007 Best Places to Work in the Federal Government survey placed SBA 30th out of 30 agencies) and the agency has been the subject of several reports and investigations that found its oversight capabilities sorely deficient when it comes to preventing fraud and abuse.

The new leadership team at SBA has moved quickly to begin to change the direction of the agency, launching extensive assessments into the agency's programs, infrastructure and information technology systems. These assessments have not only resulted in a focus on staffing in critical areas, but also significant steps to immediately strengthen the agency's oversight and program implementation capabilities to address fraud and abuse, as well as increase the efficiency and effectiveness of the SBA's key loan programs at this critical time.

Recovery Act

In all, the Recovery Act provides $730 million to SBA to implement key changes and additions to the agency's lending and investment programs so that they can reach more small businesses at this critical time. As President Obama has articulated, small businesses will be one of the key drivers to our nation's economic recovery. The goal of the SBA Recovery Act programs is to restart lending, get much-needed capital in the hands of small business owners across the country, stimulate the economy and put Americans back to work.

Raising Loan Guarantee to 90 percent and Temporary Elimination of Loan Fees

Within 30 days of the Recovery Act being signed by the President, SBA moved quickly to implement two key provisions that have already had an impact. On March 16, President Barack Obama announced that as a result of the Recovery Act, SBA had temporarily raised to 90 percent the guarantee on some of the agency's 7(a) loans to qualified small businesses. This temporary increase provides banks with the greater confidence they need to extend credit during the current recession.

Additionally, on March 16, as part of the Recovery Act, the SBA temporarily eliminated the processing fees for both borrowers and lenders on 504 Certified Development Company loans. Borrower fees were also eliminated on SBA's 7(a) loans. For fees on loans approved after February 17 (the day the Recovery Act was signed into law), the SBA is also providing refunds. These steps provide additional incentive to lenders to make loans, and make access to much-needed capital for borrowers less expensive.

As a result, SBA has already seen an increase of about 25 percent in the average weekly loan volume in its 7(a) and 504 loan programs, compared to the weeks prior to the March 16 implementation of these provisions. From Feb. 17 to Apr. 24, 301 lenders that had not previously made a loan since Oct. 2008 made 7(a) loans. Of those lenders, 124 had not made a loan since at least 2007.

Raising the Surety Bond Guarantee to $5 Million
On March 27, the SBA announced it had raised the surety bond limit to $5 million, up from $2 million, for small businesses competing for contracts on projects implemented through the Recovery Act. Additionally, the changes allow SBA to guarantee a bond up to $10 million with the certification from a federal contracting officer. The higher guarantees provide a greater opportunity for small businesses to compete for the critical Recovery Act dollars that are intended to create jobs and stimulate the economy.

ACR Loans and Other Recovery Act Provisions
Currently, SBA is working to implement the remaining Recovery Act initiatives, which include:

- America's Recovery Capital (ARC) Loan Program – This program will offer deferred-payment loans of up to $35,000 backed 100 percent by SBA to viable small businesses that need help making payments on an existing, qualifying loan for up to six months. This new program is intended to give small businesses some temporary financial relief to keep their doors open and get their cash flow back on track so they can maintain existing jobs and ultimately create new jobs. Repayment does not begin until 12 months after the loan is fully disbursed.
- Expanded Microloans - Expanding SBA's microloan program provides extra funding for SBA-backed microlenders across the country. The bill provides enough for $50 million in new SBA microloans, which are delivered by nonprofit community-based intermediary lenders across the country. These loans can be for up to $35,000 and come with technical assistance and training for every borrower.
- 504 Refinancing – The 504 refinancing program will help expand existing long term projects by working with Certified Development Companies to restructure and refinance certain existing loans into SBA-backed 504 loans to help reduce monthly debt repayment and keep more money in the hands of small business owners across the country.
- Guaranteeing 504 First Mortgages - A new program to guarantee Section 504 program first mortgages will provide fresh liquidity to the 504 first mortgage market. Through this program SBA will establish a process for private sector entities to apply for federal guarantees on pools of first lien position Section 504 loans.
- Expanding SBIC Available Capital - The Recovery Act also enables SBA to expand its Small Business Investment Company (SBIC) debenture program to assist this source of venture capital.

Recovery Dollars Distributed To Date

As of April 8, the agency has obligated nearly $57 million in Recovery Act funds, which have helped support more than 5,000 loans totaling more than $1.7 billion in SBA's 7(a) (including SBA Express) and 504 loan programs. The chart below breaks down these dollars across SBA programs.

Recovery Act Loans
As of 4/23/2009

<table>
<tr><th></th><th>Loans
$ Million</th><th>Guarantees
$ Million</th><th>Funds Obligated
$ Million</th></tr>
<tr><td>504</td><td>1,207 *</td><td>537</td><td>11.5</td></tr>
<tr><td>SBA Express</td><td>227</td><td>113</td><td rowspan="2">45.3</td></tr>
<tr><td>7(a)</td><td>1,131</td><td>938</td></tr>
<tr><td>Total</td><td>2,565</td><td>1,588</td><td>56.8</td></tr>
</table>

* Includes approximately $700 million of unguaranteed private first mortgage loans.

In addition, the agency is seeing some early interest in the recently-implemented increased surety bond guarantee. SBA is currently working to implement the remaining Recovery Act programs in the coming weeks.

Reform

Accountability:
In recent years, the SBA has become the target of much criticism for poor oversight and its inability to protect taxpayers from fraud and abuse. One of the most widely scrutinized examples of this is the SBA's oversight of the HUBZone program.

SBA Actions:

- The SBA is in the process of re-engineering the HUBZone program, including examining all operations and potential risks.
- The SBA is also developing new procedures for conducting site visits, using a risk-based method, to ensure HUBZone program eligibility.
- The SBA is working with its General Counsel to make sure that the agency is taking advantage of all tools at its disposal to uncover fraud and take quick and corrective action whenever it is uncovered.

Transparency:
With regard to the Recovery Act implementation, the SBA had worked quickly to provide specific information – including weekly progress reports – on its website about the programs authorized under the Act.

Interagency Efforts

Un-sticking the Secondary Market for SBA Loans

The SBA has worked closely since the early days of the Obama Administration with the Department of Treasury on plans to un-stick the secondary market for SBA loans. SBA lenders rely on an active secondary market for buyers of the loans they make, which then frees lenders up to make more loans to small businesses. As a result of the current economic climate, secondary market for SBA loans has become frozen.

On March 16, President Obama announced the commitment of up to $15 billion from the Troubled Asset Relief Program (TARP) to purchase any security backed by guaranteed portions of 7(a) loans and 504 First-Lien Mortgages packaged on or after July 1, 2008 through December 31, 2009 (the expiration of EESA authority). These direct purchases of 7(a) and 504 securities will provide liquidity to lenders, including community banks and credit unions, enabling them to restart the lending process and providing access to much-needed capital for small businesses at this critical time.

Driving and Promoting Innovation

In line with the President's goal of increasing interagency collaboration, the SBA has already moved to establish collaborative efforts with the Domestic Policy Council, the Department of Energy, the Department of Commerce and the U.S. Trade Representative on ways to best grow and promote innovative small companies. These efforts are in line with the Administrator's intent to be the advocate for small business across the federal government, ensuring effective coordination that is results driven and creating an ideal environment for fostering innovation that will drive economic growth and create jobs.