Executive Summary

Overview

The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business financing, government contracting, and technical assistance. SBA also works with other federal agencies to reduce the regulatory and paperwork burdens to small businesses. In addition, SBA serves as the government's long term lender to homeowners, renters, and businesses damaged by disasters.

The importance of small businesses to the country is clear: there have been more than seven million new American jobs created in just over three years, more than all the other industrialized nations combined. Two-thirds were created by small business. Entrepreneurs enable an economy driven by innovation and regeneration, which keeps the country competitive and growing. Small businesses can also be a powerful enabler of community transformation, and a bridge to ownership and opportunity for Americans of all backgrounds.

Since 2001, the SBA has achieved major budget savings while virtually all of its programs have grown significantly. The Agency's leadership team will continue this commitment to fiscal responsibility while also aggressively pursuing a Reform Agenda to improve the effectiveness of its programs. This agenda is grounded in the belief that the Agency can improve the effectiveness and impact of its programs and activities markedly, by employing important management principles. These principles will seek to ensure that the Agency is driven by clear outcomes, is focused on serving its customers effectively, enables its employees, and operates an accountable organization in compliance with laws and regulations. The Agency also has a renewed focus on ensuring that its products and services are accessible to entrepreneurs in the Nation's most underserved markets — those with higher rates of unemployment and poverty and lower rates of economic progress. This budget request highlights SBA's progress to date and describes the Agency's plans for achieving the vision of the new management team in FY 2008.

In 2001, the SBA began a drive to deliver more value to the Nation's small businesses while lowering costs to the taxpayer. By restructuring key agency operations and reengineering its largest loan programs, SBA has increased the number of 7(a) and 504 loans funded by over 100 percent since FY 2001 while reducing its total budget by 31 percent since 2001 (excluding the disaster program and Congressional initiatives). The Agency's oversight responsibilities over government contracting to small businesses also increased during this period as the value of these federal contracts increased by 56 percent.

Through its restructuring, SBA has improved the effectiveness of the taxpayers' dollars supporting small business development. Because of these improvements, in FY 2008, SBA will be able to serve record numbers of small businesses with a total budget request of $464 million.

The principles of SBA's Reform Agenda have already resulted in a dramatic improvement in the Agency's Disaster loan program. The 2005 Gulf Coast hurricanes resulted in SBA's largest disaster response in its 53-year history. Over 420,000 loan applications from Hurricanes Katrina, Rita, and Wilma (almost three times the level for the second largest disaster, the Northridge earthquake of 1994) left the Agency struggling to meet its loan processing standards and frustrated many. In the summer of 2006 Agency management led a fundamental reengineering of its disaster loan processing operation that has dramatically shortened response times, improved quality, and increased borrower support. Processing backlogs were eliminated, and feedback on the new approach has been universally positive. By January 2007 over 98 percent of borrowers from the Gulf had received full or partial disbursement of loan funds.

SBA is bringing the same principles to administering its business guaranty programs as well. Reengineering the loan servicing process is underway and will result in better customer service and less operational redundancy. Building upon its success in consolidating 7(a) loan liquidation functions from almost 70 district offices to a single location, SBA is also finalizing plans to consolidate 7(a) loan origination, 504 loan liquidation, and Disaster loan liquidation. These changes ensure that loans are managed more consistently and efficiently. Furthermore, in the case of 7(a) loan liquidation, considerable budgetary savings were also realized through centralization.

Modernizing Agency operations and downsizing is challenging, but it is essential. The Nation's taxpayers expect SBA to operate using the techniques and practices of sound operational management, including the smart use of technology. Through its proactive efforts to reduce costs and improve productivity and performance, the SBA has demonstrated its commitment to deliver ever better products while improving efficiencies.

With a guaranteed and direct loan portfolio of over $78 billion, SBA has a critical role as a steward of taxpayer dollars. While the portfolio has grown at a record pace in recent years, during that time SBA implemented a rigorous, state-of-the art risk management program. By using industry data and technology, the Agency has replaced the old, primarily manual processes for reviewing lender and loan performance with automated, quantitative risk-based methods to more effectively identify problems. This approach has improved oversight during a period of strong growth in the loan portfolio.

Highlights of the Budget Request

The SBA's total budget request for FY 2008 is $464 million in new Budget Authority. This represents an increase above the Agency's enacted level in FY 2006 of five percent, excluding the Disaster program and Congressional initiatives. The Agency requests that the Disaster program be funded out of carryover balances from the $1.7 billion in supplemental funding received in FY 2006. This funding is projected to be sufficient to provide both loan subsidy and administrative expenses through FY 2008, barring any extraordinary disasters.

The resources requested will support a total of $28 billion in small business financing, which represents a 40 percent increase over business lending for FY 2006, through the 7(a), 504, and SBIC debentures programs. For its flagship 7(a) program, SBA requests $17.5 billion — a 27 percent increase over the FY 2006 lending. SBA also requests $7.5 billion for the 504 program, a 32 percent increase over loans made in FY 2006 — a record year for 504 lending. Finally, SBA requests an SBIC Debenture program of $3 billion.

In addition, this budget will support the following critical activities:

- A Disaster loan volume of $1.064 billion in direct lending (the Agency's ten-year average based upon FY 1996–2005 "normalized" activity, adjusted for inflation).
- Counseling and training to small business people through SBA's network of resource partners in Small Business Development Centers (SBDC), SCORE, and Women's Business Centers.
- Targeting a total of $85 billion in prime federal contracting dollars to be awarded to small businesses in FY 2008.
- Investment in the Agency's human capital through job skills training, mentoring programs, succession planning, proactive recruitment of highly qualified staff, and implementation of an automated personnel records system.
- Maintaining employee security through continued implementation of Homeland Security Protocol Directive #12 and support of major security improvements in the headquarters building.

SBA's budget request will support 2,123 FTEs from the Salaries and Expenses budget. This represents an increase of 86 positions from the staffing level at the end of FY 2006. Critical positions that will be filled by FY 2008 include: 9 additional Procurement Center Representatives (PCR); 28

positions for the centralization of 7(a) loan making and 504 liquidation; critical management positions for Capital Access (including the Director and Deputy for the Office of Financial Assistance); at least 10 field office staff; a Chief Information Security Officer; and other critical positions throughout the Agency.

New Vision for the Agency's Future

SBA's vision for the future will focus in three primary areas:

- Underserved markets
- Disaster assistance
- A Reform Agenda to improve the effectiveness of the Agency in meeting the needs of America's entrepreneurs

Underserved Markets

Many areas of the country have significantly higher unemployment and lower income levels than the Nation's averages. Federally defined economically distressed markets, which are typically based in inner-city and rural areas, include: Low/Moderate Income, Historically Underutilized Business (HUBZones), Enterprise Community/Empowerment Zones, and New Market Tax Credit Zones. Higher levels of business formation and growth in these areas can promote job creation, business ownership, and economic vitality where they are most needed. In many cases, SBA's financial, technical, and contracting assistance programs are especially well-designed to meet the needs of small businesses in these "place-based" communities, as well as in "people-based" communities, on which it also focuses (e.g., minority, female, and veteran entrepreneurs).

The Agency will sharpen its focus to address the most underserved communities in the following ways:

Lender Outreach and Product Development — For the Agency's investment and loan programs to be effective, it must ensure that it has products that meet the needs both of the borrowers that require capital and the lenders that distribute it. The Agency has begun an initiative to address these issues to increase lender interest in reaching these target markets.

Expansion of the Community Express Pilot — This pilot was designed to reach underserved markets and combines both capital and technical assistance to increase the viability of the businesses it serves. The Agency is working to broaden lender participation in the product and will seek involvement from its counseling and training partners: SBDCs, SCORE, and Women's Business Centers.

The Urban Entrepreneur Partnership — The Urban Entrepreneurial Partnership (UEP) initiative is a community-based referral program located in an urban setting. The Agency is working to expand the initiative to additional cities through a "modified" Business Model that will create a local network of small business resource providers serving urban and inner-city communities (*UEPNetwork*), as initially outlined by the President to the National Urban League in 2004.

Expansion of Alternative Work Sites — One way the Agency has made itself more accessible to small business is to locate certain district office staff away from single urban centers to locations closer to customers. Currently, there are 22 such alternative work sites in operation. SBA is seeking $100,000 to set up seven additional sites in FY 2008.

Business Process Reengineering for the Office of Government Contracting and Business Development (GCBD) — SBA's request includes $500,000 to examine how to best serve the 8(a), HUBZone, and small disadvantaged business communities, as well as women and veterans. The Agency recognizes it can improve in its management of these programs, particularly the 8(a) program, and will use these resources to determine how to best serve them – whether through staff realignment and training, or technology improvements.

New Markets Tax Credit Pilot — In October 2006, the Agency launched the New Markets Tax Credit pilot (NMTC) loan program to provide financial assistance to small businesses in economically distressed urban and rural areas, or "New Markets." The pilot program, which is only available to 7(a) lenders making new loans through advance-purchase commitments with Community Development Entities (CDEs), waives a regulation that limits an SBA lender's ability to sell any portion of an SBA guaranteed loan to anyone other than another SBA lender. The waiver allows CDEs with New Markets tax credit allocations to purchase up to 90 percent of SBAExpress or Community Express 7(a) loans of up to $150,000 made to NMTC "qualified" businesses in low-income communities. These new loans are guaranteed by the SBA. By leveraging the SBA's resources with the Treasury's NMTC program, the pilot will provide additional access to loans and technical assistance to both start-up and existing small businesses in New Markets. Under the program, Community Express lenders will assist CDEs to provide small business borrowers with a package of services including mentoring, coaching and counseling.

Zero Subsidy Microloan Program — Small business loans under $35,000 provide a critical level of capital to certain sectors in the economy, many of which are in underserved communities. To a large extent, the regular 7(a) program and the Community Express pilot reach many members of these communities. In FY 2006, 44 percent of all 7(a) loans approved were made at the microloan funding level ($35,000 or less). However, additional businesses in target markets are reached through the Agency's targeted microlending program.

The SBA Microloan program as currently structured is costly to the taxpayer relative to the amount of capital it lends. In FY 2006 it cost 85 cents to the government for each dollar loaned to a Microloan intermediary. Therefore, the Agency proposes a zero subsidy Microloan program. By raising the very preferential rate at which intermediaries borrow from as low as two percent below the five-year Treasury rate to 1.06 percent above the FY 2008 five-year Treasury rate, the Agency can eliminate the subsidy cost of this program and greatly expand funding for Microloan intermediaries. Intermediaries will continue to receive a better than market rate of interest on loans, and SBA will be able to offer loans to virtually any eligible intermediary.

Furthermore, SBA proposes eliminating Microloan technical assistance funding. SBA would seek assistance for training and counseling from its technical assistance resource partners, including the Small Business Development Centers, SCORE, and Women's Business Centers located throughout the country, its district offices, and other local providers. This will save almost $13 million in Microloan technical assistance in FY 2008.

Expanding the Veterans' Outreach Program — The SBA requests an additional $500,000 for the Office of Veterans' Business Development (OVBD) in FY 2008. With the Nation's current engagement in Iraq and its presence in Afghanistan, the number of veterans returning from active duty continues to grow. SBA's Office of Veterans Business Development plans to increase its efforts to educate and provide programs and services to veterans and active duty personnel in three major areas: access to capital, management and technical assistance, and procurement assistance programs through SBA, other government agencies, and the private sector. The Agency will accomplish this through a veterans' initiative through existing loan programs, the disabled-veteran-owned business government contracting program, a redesigned website populated with a broad range of programs and services available to veterans, the development of training and mentoring programs for veterans by veterans, and funding district offices to grow veteran-owned business capacity.

Disaster Program

Certainly the area in which SBA has made the most significant changes in the shortest time has been in the Disaster program. While the SBA has typically responded quickly to disaster victims' needs, the unprecedented 2005 hurricanes provided insight into operational challenges. SBA's disaster response was significantly slower than Agency goals as a result of the catastrophic nature of Hurricanes Katrina, Wilma, and Rita. This problem was compounded by the Agency's new computer system for the Disaster program, and the immediate need for a substantial increase in staff and facilities during FY 2006. Rather than the FY 2006 goal of 14-day loan approval for home loans (18 days for business loans), applicants were forced to wait an average of 71 days for loan decisions. Following the approval, loan closings and disbursements have also been slow due to the large volume of applications, Agency efficiency challenges, and in large measure due to permits, insurance, and other requirements outside of the Agency's control.

In the summer of 2006, Agency management initiated the Accelerated Disaster Response Initiative to identify and implement process improvements to help the Agency respond more rapidly in assisting small businesses and homeowners seeking financial assistance after a disaster. As a result, the Agency fundamentally reengineered its disaster loan processing operation to shorten response times, improve quality, and provide greater borrower support. Based on customer feedback, the Agency rolled out an "integrated team" model. Each team is comprised of 15-18 employees with legal, financial, and other required competencies to ensure timely, coordinated loan processing. Customers are assigned to a case manager on the integrated team so they have a single point of contact that is accountable to guide them through the loan process and ensure that the SBA is responsive to their timing and other requirements.

Case managers proactively contact applicants to determine what impediments exist to closing loans and making disbursements. For example, SBA will assist borrowers in identifying local companies that provide title and recording services necessary for loan disbursements. Better customer interaction reduces errors, expedites the customers' ability to complete their requirements, and improves the borrower experience.

In order to assess SBA's ongoing performance, the Agency has implemented numerous productivity and other metrics to track applications' status and performance of employees. All applications are categorized by processing status and type of outstanding issue. This provides management with necessary information to identify problem areas and implement corrective actions. Further, productivity is monitored to identify areas that require management intervention. These strategies are the foundation for improved responsiveness to borrower needs. For example, the loan modification backlog that averaged 2.5 months in July 2006, averages 10 days as of January 2007, and continues to decline. In addition, the loan backlog of modification requests over 21 days old has been almost completely eliminated since July.

Additional organizational planning measures to improve SBA's disaster response include the development of models to rapidly forecast loan volume and resource requirements (financial, human capital, and logistics) to better position the Agency to respond to large-scale disasters when they strike. Moreover, SBA is nearing completion of a protocol to leverage its field network to improve local coordination and communication with citizens and other local authorities.

By 2008, SBA expects to implement an Internet-based electronic loan application process to ensure that borrowers' required information is provided to assess loan eligibility. This complements SBA's investment in the disaster computer system that has been tested to support a four-fold increase in concurrent user capacity to 8,000 users. The Agency is also evaluating options to access the private sector's skills and resources when dealing with catastrophic disaster events.

SBA's Reform Agenda

Through the Agency's Reform Agenda, SBA will operate better by focusing on becoming an organization that is:

1. Becoming more customer focused.
2. Enabling employees and improving SBA's work environment.
3. Ensuring stewardship of the government's resources through accountability, efficiency, and transparency.
4. Outcomes driven.

Becoming More Customer-Focused

The SBA has made significant progress towards being more customer-focused and simplifying how the public and partners interface with the Agency. The public includes America's small businesses, as well as natural disaster victims. Partners include a wide range of financial institutions, which extend capital to small businesses, technical assistance partners, that provide counseling and training to nascent and existing entrepreneurs, and federal agencies, which contract with small businesses.

SBA recognizes the need to provide additional assistance to small businesses seeking government contracts. With total federal contracts dollars projected to increase 56 percent over FY 2001 to $85 billion, SBA's responsibility is to ensure small business retains access to these opportunities. The Agency's budget request includes nine new Procurement Center Representatives to improve SBA's support to contracting officers seeking opportunities for small businesses.

SBA is working on a number of initiatives which simplify the work for both small businesses and federal contracting offices to improve small business access to procurements. During FY 2006, SBA began working on an Electronic Procurement Center Representative (EPCR) system to allow PCRs more timely information about contracting opportunities for small business. It also worked with the Department of Defense to integrate EPCR functional requirements with the DOD's capture of additional pre-solicitation information, and explored possible expansion of existing shared systems in the Integrated Acquisition Environment (IAE). The Agency will prepare a business case and will pursue systems design and development in FY 2008.

In addition, SBA has already implemented the eTran system, which provides a web-based portal for loans guaranteed through the flagship 7(a) loan program. Seventy percent of 7(a) loans come in through this portal. Expanding the functionality of eTran will further automate lender interactions. In addition, SBA is working with lenders to identify and address other cumbersome processes, which can deter lenders from marketing certain of SBA's products. The Agency is currently implementing a web-based system to be used by both surety bonding companies and the small businesses seeking bonding.

SBA has also enhanced its Entrepreneurial Development Management Information System (EDMIS), used by its technical assistance partners, to simplify the system's use and capture better information.

SBA is the Business Gateway e-Gov initiative's managing partner. The Business Gateway will provide the Nation's businesses with a single, Internet-based access point to government services. It will simplify and improve businesses' ability to locate and submit government forms and reduce the time and effort needed to comply with government regulations. Each year the Gateway will increase the time saved by businesses accessing information and forms by 50,000 hours over FY 2006. SBA is requesting $4.8 million in reimbursable budget authority for the program in FY 2008 and $425,000 for the project management office – part of SBA's contribution as managing partner.

Enabling Employees and Improving SBA's Work Environment

Employees are essential to the success of any service organization. Employee surveys in both 2004 and 2006 have indicated low morale at SBA. This issue must be addressed. In support of the President's Management Agenda for human capital, SBA is developing its workforce's skills, hiring the best talent available, improving job satisfaction, and ensuring the safety and security of its workers. SBA's human capital initiatives are particularly critical over the next few years because by 2009, 34 percent of SBA's workforce will be eligible to retire. As a service and oversight agency, SBA's people are its most critical resource. Steps must be taken now to ensure the Agency's effectiveness can be sustained.

In surveys and self assessments, SBA staff members have indicated a need for training, especially in the area of technology. To meet this need and ensure the Agency has employees with the right skills, SBA is requesting over $500,000 for its centralized training efforts (a similar level to FY 2006). This initiative will include: funding for a skills gap assessment for mission critical occupations; an electronic learning tool; learning management systems; management and leadership development training; a mentoring program; succession planning; and a program to help staff balance the demands of their professional and personal lives. In the past year the Agency has struggled to attract the skilled personnel it needs to meet the demands of its programs and administration. Therefore, SBA is requesting over $100,000 in additional funding for more proactive recruitment efforts.

During FY 2006 the Agency engaged in a number of essential training events. Many of them will be repeated FY 2008. The events focus primarily on training district office staff, who are performing required programmatic or administrative functions. Topics covered include a refresher of basic operations, rules, and processes, plus any recent changes in processes and/or new initiatives. Such basic training is essential to ensure that adequate internal controls are in place and that staff members understand and follow the required procedures. Staff feedback indicates this type of training has had a positive impact in improving understanding of core processes, enhancing communication across offices doing related work, and improving overall morale. The major training events include:

> *A business development training event hosted by the Office of Government Contracting and Business Development for district office staff* — This event helps ensure procurement employees are up to date on changes in this very complex and high risk area and facilitates sharing of best practices. (FY 2008 cost: $140,000)
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> *Regional and district administrative officers' training* — FY 2006 was the first time in six years that this training, jointly sponsored by Field Operations and the Office of the Chief Financial Officer (OCFO), was conducted. Most field administrative employees operate with little face-to-face contact with their peers or the OCFO, with whom they frequently interact through voice and e mail. Administrative staff members are responsible for committing funds on behalf of the Agency and must know and follow the budget execution process carefully. As the keepers of the credit cards for field offices, it is essential these personnel fully understand their responsibilities. This training received excellent evaluations. (FY 2008 cost: $235,000)
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> *District office Project Officer staff training* — The Office of Entrepreneurial Development is again planning training for district office staff to ensure continued monitoring and oversight of SBDC grant and policy issues, adherence to procedures and knowledge of the program announcement. This training is critical as the SBDC is SBA's largest grant program, implemented by grantees throughout the Nation. (FY 2008 cost: $100,000)
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> *Training for the acquisition workforce* — This includes not only contracts and grants management personnel, but also Agency-wide staff involved in the acquisition process: management, project managers, and contracting/grants officers' technical representatives. Acquisition activities are inherently high risk, and certain acquisition personnel must have periodic training to perform

these roles. This training is mandated by Klinger-Cohen as well as by relevant OMB policy bulletins. (FY 2008 cost: $90,000)

One of the e-Gov initiatives is the Enterprise Human Resources Integration Initiative, which includes a government-wide record keeping system covering the entire life cycle of federal employees to replace the current Official Personnel Folder. SBA requests $800,000 to implement this system in FY 2008, which will increase the efficiency of the human capital management team and improve access to information to their clients — the Agency's employees.

In today's environment, agencies must be able to ensure the safety and security of their staffs, and be able to maintain continuity of operations in emergency situations. For these reasons and to meet federal mandates, SBA's budget includes:

- $1.1 million to support professional guard services, operation of a magnetometer for the building, and training for the guards. The Federal Protective Services has deemed SBA headquarters to be a very high risk building.

- $600,000 in regular Salaries and Expenses funding (complemented by about $600,000 in Disaster funding) for the full implementation of Homeland Security Policy Directive #12. By the end of FY 2008, SBA plans for all staff to have government wide security cards with biometric information. Disaster funding will allow for expedited issuance of cards in the field for temporary employees hired for specific disasters.

SBA has supported the President's Management Agenda item on competitive sourcing. By the end of FY 2006, the SBA had initiated six standard and six streamlined competitions. Four new competitions are planned for FY 2008.

Ensuring Stewardship of the Government's Resources through Accountability, Efficiency, and Transparency

SBA recognizes that government agencies need to become more efficient even while shouldering increased responsibility. Through careful analysis of its programs and operations, the Agency has demonstrated its ability to expand its services to America's small businesses while reducing total expenditures.

Nevertheless, SBA must maintain its sound stewardship of government resources and cannot reduce its staffing or spending further without jeopardizing the operations, oversight, and risk management functions essential to managing its expanding loan portfolio. During the period since FY 2001 when SBA's budget declined by more than 31 percent, the Agency's portfolio of direct and guaranteed loans increased by more than 50 percent.

In FY 2006, total outstanding principal on SBA loans totaled $78 billion. The Agency has taken important steps to improve its portfolio management practices and identified additional steps necessary to ensure prudent management.

Two primary principles govern SBA's loan portfolio management practices: operational excellence and risk management. The size of SBA's loan portfolio mandates it be prudently managed to ensure that small businesses are served and that the taxpayer is protected from losses. Actions SBA has already initiated in the area of operational excellence include the following:

Centralizing operations — The Office of Capital Access is in the final process of centralizing all loan making, servicing, liquidation, and guaranty purchase functions for both 7(a) and 504 from district offices into existing loan centers under the central office's direct management. SBA is doing the same for Disaster servicing and liquidation, also managed by Capital Access. Performance and production metrics were not maintained consistently by district offices but are being established, maintained, and monitored as the Agency has incrementally centralized operations. With centralized loan making and backroom functions, SBA has better internal controls over the process; can ensure consistent application of policies and procedures; can monitor, maintain, and manage performance and turnaround times; and can eliminate duplication and redundancy. It can also make more objective lending determinations without the potential conflict of interest inherent in balancing loan program marketing/promotion against credit decisions.

More timely liquidations — SBA has actively addressed backlogs in liquidations of 7(a) loans by charging-off loans with no potential for recovery and pursuing those loans with potentials for recovery. SBIC liquidations, also an area of Agency focus, are discussed in the next section on risk management initiatives.

Operational assessments and Business Process Re-Engineering — SBA is initiating operational reviews and, to the extent appropriate, business process re-engineering activities of its loan operations centers to identify opportunities for streamlining and process improvements.

Accelerating the liquidation process — Regulations nearing completion, governing 7(a) and 504 liquidations, will streamline SBA's liquidation process. The regulations will require lenders to liquidate loans before submitting them to SBA to honor the guarantee. The new regulations will also position SBA to resume an asset sale program for defaulted assets. The Agency plans to utilize the Federal Deposit Insurance Corporation as its asset sales program's marketing and sales arm.

SBA also places increased importance on risk management as part of the Agency's operational focus.

Loan and lender monitoring system and lender reviews — SBA's Office of Lender Oversight (OLO) has a state of the art loan and lender monitoring system that incorporates credit scoring metrics for portfolio management. The credit scores, combined with SBA lenders' current and historical performance, allows the Agency to assign risk ratings to lenders. Such ratings provide both an assessment and a monitoring tool for the most active SBA lenders, and are the primary basis by which lower volume lenders are evaluated. These lenders are under direct oversight of OLO rather than the program office. In addition, OLO is responsible for conducting on-site lender reviews and examinations. Through FY 2006, the Agency has not had resources to conduct as many reviews as demanded. However, because the Agency recently received authority to collect fees for these reviews, SBA plans to fund an additional $5.9 million of reviews in FY 2008.

Portfolio Analysis Committee — Senior Capital Access and OCFO managers meet monthly to review and assess portfolio trends and identify opportunities for program improvements. This committee is an important component of SBA's risk management program. The committee assesses the risk of the 7(a) and 504 loan program and performance trends. Based on analysis and management direction resulting from these meetings, program changes, operational initiatives, and other actions are generated. For example, in addition to providing support for the elimination of the LowDoc program, the committee's review efforts resulted in the initiative to reduce the backlog in liquidations and charge-offs in the 7(a) portfolio.

Lender Oversight Committee — Senior managers meet bi-monthly to review lender trends and review corrective actions for poor performing lenders. As mentioned, Lender Oversight has introduced risk ratings to monitor and evaluate SBA lenders. The committee is also provided with results and performance metrics on lender oversight activities such as examination reports and corrective action plans for lenders under OLO's direct oversight. SBA has placed several lenders under corrective action plans and continues close monitoring to improve performance.

Lender Portal — Lenders now have access to their risk ratings and performance metrics through the lender portal, making it transparent to lenders what they are rated on and how they compare with their peers. Using the information in the portal, lenders can address portfolio performance and data quality issues to improve their risk ratings, which the Agency believes will ultimately result in significant improvements in loan program performance as well as data quality. The information is also available to SBA's district offices to help identify training opportunities for lenders.

SBIC liquidations — SBA currently oversees approximately $1.5 billion in SBIC leverage in its Office of Liquidation and $10.4 billion in leverage and commitment guarantees in its Office of Operations. Collecting on the large amount of leverage outstanding in the Office of Liquidation continues to be of great concern. The staff has developed a comprehensive strategy for liquidating this portfolio of investments. As part of this strategy, several pilot initiatives for liquidating SBIC assets are being pursued to ascertain the most cost efficient means of disposing of this significant portfolio. With $2.4 billion in estimated losses in the participating securities (PS) program, oversight on the $10.4 billion in outstanding leverage and commitments for those SBICs (of which almost $7.3 billion pertains to the PS program) remains of high importance. To continue its oversight efforts, SBA requests in its FY 2008 budget $1.5 million to continue its valuation contract, develop a liquidation plan, and implement an examination contract. This investment will help maximize recoveries on the $1.5 billion in the Office of Liquidation, and minimize losses on the $10.4 billion in outstanding leverage and commitments in the Office of Operations.

The Agency's entire business loan operation runs on a Cobol-based system developed in-house. Parts of this system are over 50 years old. The system is operated on an expensive mainframe that is dependent on obsolete technology and cannot take advantage of technological advances or meet security requirements. The modernization of this system is a major Agency-wide undertaking that began in FY 2006, to be completed by 2012. The Agency has identified a certified project manager, appointed a project champion, commissioned a senior level steering council, and established a change control board. Activities in process and/or planned for the near future include finalizing the business vision, developing the project management plan, and finalizing technical and functional requirements. For FY 2008 SBA is requesting $4.1 million in regular Salaries and Expenses funding for this initiative (to be complemented by about $4.2 million in Disaster funding) for project management support, and to acquire and begin implementation of a new system.

SBA's request also includes a legislative proposal to strengthen and ensure stability in the Agency's Secondary Market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. An ongoing fee of less than six basis points would be charged on new secondary market securities, in line with rates charged by similar federal programs, and will enable the program to operate without cost to the taxpayer or structural changes.

Outcomes Driven

To fulfill its mission, it is critical that the SBA understand how to drive outcomes aligned with that mission. SBA is proud of its work on budget and performance integration which has allowed the Agency to maintain a Green rating in both status and progress since FY 2004.

The Agency recognizes it still has work to do, particularly in defining its programs' outcomes. As such, SBA contracted with the Urban Institute to analyze its business loan programs with results due in FY 2007. In addition, the Agency is analyzing penetration of its lending products into various place-based and people-based groups to understand their impact more fully.

The Office of Entrepreneurial Development (OED) has been examining its programs outcomes as well, particularly the SBDC (Small Business Development Centers) program. SBDCs provide small businesses technical assistance in a number of ways: training, conducted in large groups; one-on-one business counseling, often limited to an hour; and counseling to clients who return for numerous sessions. In discussions with SBDCs and impact data analysis, OED recognized the best correlation between business success and job creation was with "long-term" counseling clients – those who receive a minimum of five hours counseling. However, due to the program's emphasis on outputs, SBDCs were incentivized to focus large proportions of their resources on training (which generates large numbers) and short-term counseling. Starting in FY 2007, OED will work with SBA's district offices, which negotiate SBDC grant agreements, to place more emphasis on long-term counseling to ensure a greater impact on outcomes. Grant agreements will be written with goals related to long-term counseling.

At the same time, the Office of Entrepreneurial Development (OED) recognized the importance of external measurement and client validation of its services. To that end, OED has implemented an ongoing longitudinal analysis of both the value and impact of its services.

In 2006, SBA produced the second year report of its first three-year longitudinal study of small businesses that have received SBA's management assistance from OED's programs. This study was initiatied in response to a recommendation by OMB in using its Program Assessment Rating Tool (PART) and is an external, independent evaluation of OED programs' impact. The study indicates that businesses which received management assistance from SBA's resource partners (SBDCs, SCORE, and WBCs):

- Gave high ratings to the usefulness of that assistance.
- Appear to have a higher survival rate than those analyzed in other national studies (e.g., the PSED Kauffman Study).
- Had revenue growth of and an average increase in number of employees in the 10 – 20 percent range.

By spring FY 2007, the Agency will complete a major review of its Strategic Plan. The review will incorporate information from SBA's financial assistance programs' evaluation, as well as the new SBA leadership team's vision. As a first step, the Agency has already worked with all program offices to simplify its performance indicators by limiting reporting to key indicators, particularly those which are outcomes or drive outcomes.