

U.S. House of Representatives Committee on Small Business
Accountability Update
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Chairwoman Velazquez and distinguished members of the Committee: It is an honor to be testifying before you for the first time as the Administrator of the SBA.

Given the Obama Administration's mandate to eliminate and prevent waste, fraud, and abuse in Government programs, I am pleased to have the opportunity to testify at my first of the three annual Committee hearings on this topic. I consider this to be one of my most important responsibilities as Administrator.

As you know, small businesses account for a large percentage of new American jobs every year. Also, approximately half of American workers either own or work for a small business. And small businesses will continue to drive innovation, competitiveness, and the creation of 21st-century jobs.

We know that these are tough times for small businesses, making the SBA's mission more important than ever.

- We maintain a lending portfolio that supports nearly \$90 billion, mostly in loan guarantees.
- We are charged with ensuring that at least 23% of federal government contracts are given to small businesses.
- We have a strong, nationwide network of more than 2,000 employees and 14,000 SBA-affiliated counselors who help entrepreneurs and small business owners create and grow their businesses.
- And, we currently have more than 2,000 on-call employees who stand ready to help in the event of a disaster.

The SBA is committed to the principles of integrity, accountability, and effectiveness in all of these programs. These principles are at the core of who we are and what we do as an Agency.

The Recovery Act, which was passed with your help, is a great example of this commitment. Since the Act passed, the SBA has supported nearly \$7 billion in lending approvals to small businesses. Weekly loan dollar volumes have risen over 45% compared to the weeks leading up to the Recovery Act. Also, lenders are becoming more active with SBA lending, with more than 750 now participating who had not made a loan since October 2008. More than half of those had not made a loan since at least 2007.

As you can see on the chart, nearly all of the SBA-designated funds are now in place to support our Recovery Act efforts. We are very pleased that these programs are already helping entrepreneurs and small business owners retain and create thousands of jobs while stimulating our economy.

One of the first actions I took upon becoming Administrator was to make sure that a senior-level Risk Management Team was in place for overseeing the rollout of these Recovery Act programs. Small teams in each program area conducted an extensive risk assessment and analysis. Then, the senior-level team came together and developed a framework to prioritize and evaluate these risks in crafting risk mitigation plans. The Office of the Inspector General worked collaboratively with us to finalize the initial

plans, and these plans continue to evolve and adapt as we make progress in mitigating risk and as program risks change. These efforts continue today as we carefully monitor all Recovery Act programs to help ensure that taxpayer dollars are being spent wisely and transparently.

The rollout of America's Recovery Capital "ARC" loans is a good example of our commitment to manage risk in a conscientious way. This brand new program was designed for a specific purpose and a unique time. As a "bridge over troubled waters" for struggling but viable small businesses, the ARC loan program was not in the SBA's traditional risk profile.

With ARC, we were charged with creating a loan program that was 100% backed by the SBA with zero interest costs for the borrower. We knew from the start that these parameters would result in a considerably higher default rate than our traditional programs. In addition, we knew that targeting struggling-but-viable businesses would require a highly-tailored program design. We also knew that it would require extensive lender outreach and education to make it work.

Our staff put in extraordinary amounts of time and energy to ensure that this program would be both responsible to taxpayers and beneficial for these uniquely-situated small businesses. We worked carefully to develop a new and complex model for this program. We also conducted a rigorous risk management exercise in preparation for offering these loans.

Importantly, we reached out to lenders for feedback to ensure that ARC loans would be a product that they would offer in the marketplace. In fact, we trained lenders from about 1,300 institutions in the weeks leading up to the rollout.

As a result, small businesses across 47 states have benefited from ARC loans in the first six weeks of the program, putting more than \$26 million in the hands of small business owners. Volume in the ARC loan program continues to increase each week.

The high level of discipline, responsibility, and accountability instilled as part of the Recovery Act is now the model that we are applying to all SBA programs and resources.

The senior members of the SBA leadership team are actively addressing outstanding and emerging issues related to waste, fraud, and abuse, in a highly-systematic way, with a top priority on the concerns brought to us by the GAO and the IG.

We are currently focused on ensuring that accountability and transparency are the foundation for all external SBA programs and activities involving access to capital, lender oversight, government contracting, disaster assistance, and more. In addition, we are continually testing and evaluating our internal operating procedures to ensure that our financial management, information technology, and other agency-wide systems are functioning efficiently and effectively.

Optimizing operations is crucial in areas such as disaster assistance. We have made many strides in this area, such as hiring more full-time and on-call employees, acquiring "surge" space to prepare for a major catastrophe, increasing capacity, improving technology, shortening processing times, and more. Also, we continue to put stronger muscle behind marketing and outreach efforts, Electronic Loan Application processing, and other tools that help us reach out directly to communities affected by disaster.

Overall, there are a number of issues that still need to be addressed. Many of these problems built up over a number of years and they will not be solved in a matter of days or even weeks – but they will indeed be solved. Through fact-based analyses and metrics, we will continue to weed out wasteful spending, mismanagement and any elements that might lead to cultures of fraud, abuse, or – just as importantly – complacency in guarding against these problems.

Madam Chairwoman, my vision is that the SBA will operate in a way that allows each of our programs to meet the expectations of Congress and taxpayers. We are committed to providing measurable results for America's entrepreneurs and small business owners, and I look forward to working with the distinguished members of this Committee to make that happen.

I welcome any questions, concerns and comments about any of our programs or efforts.