

SBA Administrator Karen Mills
U.S. Small Business Administration
Senate Financial Services and General Government Subcommittee
Hearing on FY 2010 Budget
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Chairman Durbin, Ranking Member Collins and Members of the Committee, it is an honor to testify before you. I am pleased to be here to support the President's 2010 Budget for the SBA, but first I would like to briefly update you on the SBA's progress with the Recovery Act.

With the launch of the America's Recovery Capital (ARC) loan program yesterday, the SBA has implemented more than \$645 million of the \$730 million in total SBA Recovery Act funding. On March 19, we announced that we would raise guarantees on most 7(a) loans to 90% and reduce or eliminate fees on both of our flagship loan programs. The results are encouraging. In this environment of tight credit, we were able to increase our loan volume by more than 30% compared to the weeks before the Act was passed. Just as importantly, we have brought nearly 500 banks and credit unions back to the program, many of whom who had not participated since 2007.

By and large, the stimulus money is out in the marketplace – in the hands of entrepreneurs and small business owners – and it is working. At this pace, funding for the 90% guarantee and the fee reductions will last through December of this year.

Yesterday, we opened up applications in our ARC loans program. These loans will provide the relief that many viable but struggling small businesses need. The ARC loans are 100% guaranteed by the SBA for up to \$35,000 with no interest for borrowers and no repayments for 12 months. We expect these loans to be in high demand. We have taken steps to ensure that smaller lenders and community banks have access to these loans before the supply runs out. Specifically, we have limited the number of loans a lender can give to 50 a week, with a total from any lending institution of no more than 1,000. And if a bank doesn't use all of the loans one week, they can roll them over to the next week.

The SBA is here to ensure that small business will continue to drive America's economic recovery and build a stronger foundation of American competitiveness while creating well-paying jobs in the 21st century.

The 2010 SBA Budget request of \$779 million is key to moving forward with that overarching goal in mind. There are four basic functions of the Agency that are supported by this budget.

First, our disaster assistance programs ensure that businesses and communities can recover quickly from disaster and once again contribute to the local economy. We have a direct loan volume of more than \$1 billion for this area and the processing times for our disaster loans are on target. We also have more than 1,200 trained standby

employees who can be deployed to communities affected by disaster, and we continue to find ways to improve operations and planning in this area.

The total FY2010 request in this SBA function is \$101 million for administration of the direct disaster loan program. Disaster loan subsidy funding is available through unobligated balances.

The budget request also includes \$1.3 million in administration expenses for the disaster assistance programs and \$1.7 million in credit subsidy funding to conduct two pilots of guaranteed disaster loan programs authorized in the 2008 Farm Bill.

Second, our capital access division oversees our business loan programs which now support a portfolio of more than \$80 billion in loan guarantees. We have requested the same authorization levels as enacted in FY 2009 to support more than \$28 billion in small business financing through our 7(a), 504, Small Business Investment Company and Microloan programs.¹

The total subsidy request for this is \$83 million for 2010, of which \$80 million supports \$17.5 billion in 7(a) volume and \$3 million supports \$25 million in Microloan volume.

Also, we continue our multi-year investment in the SBA's Loan Management Accounting System, an effort to replace our outdated computer system. The budget requests \$5 million in additional funds for this effort.

Finally, \$3 million is requested for Capital Access to conduct a study on the next generation of equity capital programs to help stimulate innovation and job creation.

Third, the SBA's Government Contracting Division helps small businesses receive opportunities to participate in government contracting and subcontracting, with a goal of delivering 23 percent of all federal prime contracts to small firms. These contracts serve as stepping stones for small business growth while allowing federal agencies access to quality products and services with high levels of innovation, service, and responsiveness.

This budget requests an additional \$2 million to revise the certification process for the HUBZone and 8(a) Business Development programs, so that only eligible businesses participate in these programs. The money will also improve training programs which target both small businesses and procuring agencies to ensure that small businesses have the opportunity to compete.

Fourth, our entrepreneurial development division is the backbone of the agency, counseling entrepreneurs and small business owners across the country. We manage this effort through nearly 900 Small Business Development Centers and more than 100

¹ \$17.5B, \$7.5B, \$3B and \$25M, respectively. In addition, \$12 billion in authority is requested for the Secondary Market Guaranty program.

Women's Business Centers, 350 chapters of SCORE, our mentoring program that matches experienced executives with small businesses, and other programs which comprise about 14,000 affiliated counselors in total. Entrepreneurial Development also includes major initiatives to reach small business owned by veterans, Native Americans, minorities and other populations, such as those in rural areas. Our role is to be there for those who need help accessing capital and advice to pursue small business opportunities.

I should note that the performance of our counseling operations is strong, with our Small Business Development Centers serving nearly 34,000 clients since October, a 5% increase compared to last fiscal year.

The major focus of this division in FY 2010 will be not only to maximize the impact of the linkages the SBA has with our extensive network of partners, but also to improve the coordination between our partners. In addition, we will take advantage of the collaborative opportunities we are seeing with federal agencies as well as state, local and private sector players who can help us serve entrepreneurs and small businesses.

The SBA is also engaged in new collaborations with the Departments of Veterans Affairs, Commerce, and others that I will describe further shortly.

As a foundation to support each of these four areas, the SBA is renewing its focus on investing in its people, technology, and other core agency investments that are critical to the agency's future.

With **technology**, the Recovery Act provides \$20 million to move forward with efforts such as automating old paper-based systems, boosting data transfer speeds and a new web portal and a customer relationship management system.

The FY 2010 budget request includes \$3 million for additional IT improvements related to technical training, off-site data storage, a better SBA internet presence, and more email storage capabilities for employees.

Our people, of course, are our strongest asset.

This budget request includes \$13.6 million in additional funds for salaries and benefits, \$10 million of which will go to hire about 80 additional employees, bringing total salary expenditures to \$268 million with 2,203 employees. These new hires will be largely focused on loan purchases and processing.

This budget also requests an additional \$2 million to help the agency address much needed efforts in this training, mentoring and our succession planning efforts. Our hope is that these investments in SBA staff will allow us to build on our recent Most Improved Agency award related to job satisfaction in the federal government. We rose from 30th to 26th, but there is still much room for improvement.

As you can see, we are a small agency with a big mission, especially in today's economic climate.

Already, federal agencies throughout the Administration are turning to the SBA, looking for ways to tap into our vast network of staff and partners who are already “on the ground” interacting with small business owners across the country.

The most visible recent example of this has been our work with the Auto Task Force. We are moving rapidly to implement a new program to finance dealer floor plans. We have also been engaged more recently in the health care discussion to ensure that the needs of small business employees will be met in the future.

This budget allows us the flexibility to build more of these partnerships to adapt to the needs of these challenging times. Specifically, \$20 million is allocated in the 2010 budget to allow the SBA to create truly powerful collaborations through three major initiatives.

The first initiative provides an additional \$5 million to focus on veterans business issues. We have 12,000 troops coming home from Iraq this summer and tens of thousands more in the coming year. We must be ready to serve these veterans who are, or who want to become, small business owners.

Already, we have 8 specialized veterans resource centers, but we need to be serving veterans throughout our 900 Small Business Development Centers, our 350 SCORE chapters and our other partners. Also, there are nearly 2 million women veterans, and we need to ensure that our Women's Business Centers are well-equipped to serve all of them.

The \$5 million requested in the 2010 budget will leverage our existing networks to serve veterans. We are already in conversations with the Secretary at Veterans Affairs on how to coordinate our efforts. This is the part of an overall objective at the SBA and across the Administration to collaborate and break down “sacred turf” in order to make our dollars work more efficiently for those who need our help.

Secondly, a \$10 million initiative is requested to create a program of Ready Reserve teams or SWAT teams. This will be an interagency collaboration with SBA experts and experts at other federal agencies. At the request of the community, this team will go into areas that have been disproportionately impacted by the economy and help them plan for growth.

This will include regions that have been hit in the manufacturing sector, the automotive industry, and other communities that are reinventing their local economy from the ground up.

I recently went to Kokomo, Indiana, a town with 25% auto industry unemployment. The mayor, Greg Goodnight, asked me for exactly this kind of help as they work to grow new companies in electronics and engineering.

The Ready Reserve teams will work closely with our existing SBA partners to leverage the local assets in communities like Kokomo and uncover possible new opportunities. They will find ways to grow a broader knowledge base, to learn new skill sets, and to create 21st century jobs.

Third, the Budget contains a \$5 million initiative is to support small businesses who participate in Regional Economic Clusters.

An example is the Maine boatbuilders who are working with new composite technology to create lighter, faster boats that are competitive in global markets. Senator Collins has been working with this group for some time. Maine's small boatbuilders have clustered together to be a new driver of the state's economy.

Clusters are forming in every state and will be fueled by efforts in the departments of Commerce and Energy. The SBA's resources on the ground will coordinate with Commerce's manufacturing and export centers, Labor's trade assistance programs, and others to serve each cluster's particular needs.

This budget will allow us \$5 million for this effort to identify, grow and expand the partnerships that will allow us to maximize the national economic impact of regional clusters.

In sum, this \$20 million budget request will allow the SBA to be a strong voice for small business across the Administration while reaching out to underserved populations such as veterans... emphasizing innovation in areas hard-hit by the recession... and building on the strengths that already exist in small business communities.

In the coming fiscal year, my personal commitment is that the SBA will measure our progress on an agency wide-basis and transparently report our activities to taxpayers. Already, we are tracking our overall progress in a systematic and integrated way, reviewing a dashboard of data on a weekly and monthly basis. We will use these metrics to continue implementing the Recovery Act, reinvigorating our agency and serving as the strongest possible voice for small business.

Provided with the resources, the SBA can continue to be a true catalyst for the growth and innovation – helping entrepreneurs and small business owners lead us out of this recession, stimulate the economy, strengthen U.S. competitiveness, and create new, well-paying 21st-century jobs.

Thank you and now I'm pleased to take your questions.