

Update Regarding American Recovery and Reinvestment Act of 2009
Karen Mills, SBA Administrator
Committee on Small Business
United States Senate
May 13, 2009

Chair Landrieu, Ranking Member Snowe, and Members of the Committee, I am honored to testify before you. Today, the SBA's top priority is to implement the Recovery Act and put our programs into the hands of America's entrepreneurs and small businesses so they can lead our economic recovery, as they have done so many times over the course of our nation's history.

When I last testified before this committee, I described the credit crunch facing small business as a set of interrelated problems. Many borrowers are less creditworthy. Many banks have tightened lending criteria. Many banks are also concerned about adding additional loans to already stressed balance sheets. And, the lack of liquidity in secondary market prevents banks from selling off existing loans and to make room for new ones.

The Recovery Act's SBA funding was designed to address these issues and to get capital flowing. While these problems still exist, I am pleased to report that we are getting this funding into the market and it is beginning to work.

First, of the SBA's \$730 million in Recovery Act funding, over half -- \$375 million -- was targeted to temporarily increase the guarantees and to reduce or eliminate fees on certain 7(a) and 504 lending programs -- our two most popular lending programs. On March 16, we announced the availability of these funds, offering up to a 90 percent guarantee on 7(a) loans as well as the elimination of upfront fees on 504 loans and borrower fees on 7(a) loans. The results are good. As you can see in Chart 1, average weekly loan volume is up more than 25 percent compared to the weeks prior to the Recovery Act's passage -- 28 percent in the 7(a) program and 22 percent in the 504 program.

This increased lending is partially due to the fact that lenders are returning to these SBA loan programs, or, in some cases, participating for the first time. More than 1,200 lenders have approved 7(a) loans as part of the Recovery Act. Of these, more than 360 lenders had not made a loan since October 2008, and almost half of those lenders had not made a loan since at least 2007.

In total, more than 10,000 Recovery Act loans have been approved representing \$3 billion in credit supporting small businesses. We project that these loans will save or create tens of thousands of jobs throughout the country.

We are also pleased with the wide diversity of Americans who are benefiting from these loans. According to a recent Urban Institute study, SBA-backed loans are three-to-five times more often made to minority- and women-owned businesses. As shown in Chart 2, 22 percent of Recovery Act loans have gone to minority-owned businesses, 19 percent to women-owned businesses, 9 percent to veteran-owned businesses and 25 percent to rural businesses.

The Recovery Act also provides funding for two other loan programs – one existing and one new – that I'd like to discuss at this time.

The Recovery Act supports an additional \$50 million in loans to microloan intermediaries and \$24 million in technical assistance to accompany these loans. This is on top of regularly budgeted funding for this program, which is currently available. In order to effectively deploy the funds, we are working to attract new microlending partners and automate processes in order to broaden the reach of this program.

Additionally, the Recovery Act provides funds for the new America's Recovery Capital or ARC program for loans of up to \$35,000 designed to help viable small businesses facing immediate economic hardship. ARC loans will pay interest and principal on existing non-SBA debt for up to six months. The Recovery Act allocates \$255 million for these loans and we expect them to be in high demand. We expect to have more information on these loans next week during National Small Business Week.

Beyond these four Recovery Act programs, on May 1, we introduced an alternate size standard for SBA's 7(a) program that temporarily expands eligibility by using the same standard that we use in the 504 program. We estimate that this step will mean approximately 70,000 additional small businesses could now be eligible for SBA financing.

In addition, our 68 district offices and more than 14,000 SBA-affiliated counseling partners are reaching out to borrowers and lenders to help them understand all of their options for refinancing through both the 504 and 7(a) programs during this difficult time.

Another area I would like to discuss with you is SBA's work to ensure that America's small businesses have a fair share of Recovery Act contracts and subcontracts.

To accomplish this, we are making sure that the states and other agencies issuing contracts are aware of the benefits of working with small businesses. Just last week I sent a letter to all governors, urging them to reach out to small businesses about contracting opportunities. We are also working to provide an online listing for small businesses of prime and subcontracting opportunities possible through the Recovery Act.

Also, on March 27, the SBA implemented the Recovery Act provisions that raised – from \$2 million to \$5 million – the maximum contract amount that can qualify for an SBA Surety Bond guarantee. This change allows small businesses – that might not otherwise qualify – the opportunity to compete for larger value Recovery Act and other projects.

The SBA is focused on implementing Recovery Act programs responsibly and transparently, to help foster entrepreneurship and job creation, re-start lending, and invest in small businesses. As part of that, I am committed to optimizing the SBA's programs by investing in our people and technology.

Our nation's economic recovery will be driven in large part by America's small businesses and entrepreneurs, and SBA will be the critical partner they need in the midst of this crisis.

Before I close, I would like to invite all of you and your staff to National Small Business Week next week. We will recognize small business winners from every state, as well as award honors in categories including lenders, government contracting and advocates for small business. And, we will also recognize the accomplishments of small businesses who have overcome the challenges of natural disasters. We hope you will join us for these events.

I'm pleased to take your questions and comments.

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