

# SUGGESTIONS FOR IMPROVEMENTS IN SBA PROGRAMS: VETERANS AND DISASTER LOANS SALES

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## HEARING

BEFORE THE  
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT,  
AND GOVERNMENT PROGRAMS

OF THE

COMMITTEE ON SMALL BUSINESS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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**SUGGESTIONS FOR IMPROVEMENTS IN SBA  
PROGRAMS: VETERANS AND DISASTER  
LOANS SALES**

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**TUESDAY, MAY 21, 2002**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT,  
AND GOVERNMENT PROGRAMS,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Subcommittee met, pursuant to call, at 2:05 p.m., in Room 2360, Rayburn House Office Building, Hon. Jim DeMint [chairman of the Subcommittee] presiding.

Chairman DEMINT. Good afternoon, everyone. Let's get our hearing started again.

Thank you, all of our witnesses, for being here.

We will probably have a few more members come from the last vote. We wanted to get started, get your comments on the record.

I do appreciate everyone being a part of this hearing for the Subcommittee on Work Force, Empowerment and Government Programs. Very special welcome to some of you who have come from very great distances. I appreciate that.

The Small Business Administration is required by statute to provide special consideration to veterans in the administration of its programs. There have been various complaints in the past that SBA and other agencies were not addressing the needs of veterans, especially when it comes to starting, financing and growing small business. This hearing will provide a forum to evaluate the performance of SBA and the National Veterans Business Development Corporation.

The Corporation was created by Public Law 106-50 and is an example of how this Committee can work in a bipartisan effort to help veterans and small businesses in this country. I am happy to say that special emphasis is given in the law to providing entrepreneurial and procurement assistance to small businesses owned and controlled by service disabled veterans.

Also, this hearing will provide an opportunity to entertain comments concerning H.R. 3263, a bill introduced by Congressman Pascrell, a member of this Committee.

A second panel will provide information concerning the sale of disaster loans commercially.

Basic to the hearing is remembering our veterans and the sacrifices that they made for this Nation throughout our past. Memo-

rial Day is a day of remembrance. I can assure you that we in Congress will not forget you.

I look forward to a lively and informative discussion of the issues presented. Again, welcome to this hearing; and now I recognize the ranking member for her opening statement.

Ms. MILLENDER-MCDONALD. Thank you, Mr. Chairman.

I, too, would like to apologize to the gentlemen who sit before us today who waited patiently for us to do the people's business on the floor. We thank you so much for your being here; and we thank you, Mr. Chairman, for convening this very needed hearing.

Today, this Subcommittee meets in its oversight capacity to review two important programs and their effect on our Nation's entrepreneurs. Memorial Day is a time when we as a Nation take a break from our routine to remember, honor and thank those who have made the ultimate sacrifice for the freedom we enjoy. Therefore, it is fitting that we review the programs that work on behalf of our veterans who have taken the next step toward the American dream of starting a small business.

Today more than 5.5 million veterans are small business owners. These men and women are facing new challenges. Their new battlefield is the American economy. To assist these veterans our Committee passed the Veterans Entrepreneurship and Small Business Development Act of 1999. This Act created the National Veterans Business Development Corporation to improve veterans' access to financial and technical assistance. This program is also meant to give special assistance to service disabled veterans. While it holds great promise in aiding a whole new class of entrepreneurs, its full potential has yet to be realized.

The other program that we will review today is the Disaster Loan Program. While SBA has many successful programs, the Disaster Loan Program is the pinnacle. The last thing going through anyone's mind in the wake of a disaster should be, how I will ever rebuild? This program makes rebuilding a reality. Through the Disaster Loan Program, small businesses, homeowners and nonprofits can receive low-cost loans, enabling them to rebuild and restart their lives.

Rebuilding from the tragic events of September 11th would have been impossible without the assistance of the Disaster Loan Program. SBA had people on the ground in New York and Virginia helping small businesses to start over as the fires still burned, allowing America to begin the healing process.

On October 22nd, the administration took the extraordinary step to open the EIDIL program nationwide, ensuring recovery of those small businesses in the travel, air and tourism industry affected by the events. We should commend the administration and, more importantly, the SBA employees for their tireless work.

In today's hearing we will look at what happens to those small businesses once they receive an SBA disaster loan. Assessing the small business recovery process to ensure their continued success is as important as the distribution of the loan in the first place. There needs to be flexibility in these companies meeting the conditions of the loan.

By way of background, problems began in the late 1990s when SBA started selling loans to private agencies. Once the loan moved

from SBA to the private sector, the level of small business assistance decreased dramatically, removing all flexibility. Often, these private-sector institutions engaged in an overly aggressive practice of the collection of those loans, sometimes to the point of harassment.

While it is clear that these companies should repay their loans in a timely fashion, it is questionable if receiving the money on time for the lender is worth the bankruptcy and harassment those businesses experienced. It was this concern that led the Democrats on this Committee to introduce H.R. 3011, the Small Business Emergency Relief Act, that, in addition to providing greater flexibility in the Disaster Loan Program, would also prohibit the sales of these loans.

This issue was raised during our markup of H.R. 1499, the American Small Business Emergency Relief and Recovery Act of 2001, when an amendment prohibiting the resale of those loans were offered. Today's hearing will explore this policy and look for ways to ensure small businesses will not face a second round of devastation after a disaster at the hands of creditors.

Mr. Chairman, I again want to thank you for holding today's hearing and allowing us to investigate these very critical and timely issues facing our Nation's small business. I would like to thank the witnesses for testifying today and look forward to hearing their testimony. Thank you.

Chairman DEMINT. I thank the gentlelady and call on Mr. Pascrell, who would like to make some comments about his bill.

Mr. PASCRELL. Thank you, Mr. Chairman.

I would like to just thank you and Ranking Member Millender-McDonald for holding this important hearing; and, Mr. Chairman, you have assembled quite a blue ribbon panel. I don't recall us ever having, in the larger Committee or any of the Subcommittees, without exception, an as outstanding panel. I commend you for that.

We are going to focus on two different issues, Mr. Chairman, if I may, members of the Small Business Committee find practically relevant. That is, veterans assistance and disaster loan asset sales.

Veterans issues have been a priority for a long time. As a former veteran myself, I know veterans have sacrificed a great deal to safeguard America's freedoms in our future. Just think about all of the men and women who are currently deployed in Afghanistan as we sit here today.

I consider my own service in the Army as a life-building experience which has given me the necessary perspective when considering issues important to those who have and continue to serve this great Nation.

I introduced H.R. 3263, the Veterans Small Business Relief Act. My legislation is pretty simple, Mr. Chairman. It would provide that servicemen and women who have left the military within 5 years would be exempt from paying any guarantee fee for using the 7(a) loan program, probably our most significant program in the Small Business Administration.

We all know that the 7(a) loan program is one of the SBA's primary lending programs. It provides loans to small businesses that

are unable to secure financing on reasonable terms through normal lending channels.

However, to offset the cost of the program, SBA charges lenders a guarantee and a servicing fee for each loan approved. These fees are passed to the borrower. Currently, when a loan amount is \$150,000 or less, the fee is 2 percent of the guaranteed portion. For loans between 150 and \$700,000, a 3 percent guarantee fee is charged; and for loans greater than 700,000, a 3.5 percent guarantee fee is charged.

While 7(a) loans are often critical to business start-ups, charging a fee effectively levies a tax on businesses at a time when they can ill afford to pay. The salaries of those in our Armed Forces are often less than sufficient to obtain a loan through normal lending channels. For example, some sergeants in the Air Force are making around \$1,500 a month.

Let's face it. No one signs up with Uncle Sam to become rich. We are indebted to those who serve, and I think my legislation is a small gesture that we on this Committee can support.

We should permanently change the 7(a) loan program to ensure that recent veterans do not have to pay fees. We should make sure that veterans who return to civilian life, want to start a business, do not have to pay fees now or potentially increased fees in the future.

Let's be real. The fee waiver for veterans will not bust the bank.

The Congressional Budget Office has stated that the impact of this legislation would be, quote, unquote, absolutely minimal. That is different.

In my State of New Jersey, there will be an estimated 4,000 people returning home from active duty this year. I just think that we should help them any way we can. I am always up for suggestions not just for my legislation but for anything we will discuss here today; and I thank you again, Mr. Chairman, sincerely for bringing us together on these critical issues for our vets. Thank you.

Chairman DEMINT. Thank you, Mr. Pascrell.

Now, I would like to introduce our panel, if there are not any additional opening remarks. I don't believe there are.

Starting to my left, Mr. William Elmore, Associate Administrator, Veterans Business Development, U.S. Small Business Administration; Mr. Frank Soares, Chairman, Board of Directors, National Veterans Business Development Corporation; Major General Charles Henry, U.S. Army, Retired, President and CEO of the National Veterans Business Development Corporation; Mr. John Lopez, President, Association of Service Disabled Veterans; Mr. Tony Eiland, National Office of Veterans Employment, Veterans of Foreign Wars of the United States; and Mr. Rick Weidman, Director of Government Relations, Vietnam Veterans of America.

And I think I missed Mr. Wayne Gatewood, President and CEO of Quality Support Incorporated.

Now I would like to ask unanimous consent that all testimony will be made part of the record, and each witness will have 5 minutes to explain your testimony to us as well as to—

We will keep those lights going on green when you are in good shape. When you see the yellow, you know you have only got a few



seconds left. When it is red, we are going to start encouraging you to stop.

Okay. Mr. Elmore, we will begin with you.

**STATEMENT OF THE HONORABLE WILLIAM ELMORE, ASSOCIATE ADMINISTRATOR, VETERANS BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION**

Mr. ELMORE. Thank you.

Chairman DeMint, Ranking Member Millender-McDonald and members of the Subcommittee, I am William Elmore, Associate Administrator for Veterans Business Development at the U.S. Small Business Administration. On behalf of Administrator Barreto, I thank you for this opportunity to discuss SBA's accomplishments and commitment to better serving our Nation's veterans by helping them to start, run and grow their own small businesses.

We are not only committed to increasing veterans participation in our programs but also to ensuring that we achieve better results. It is fitting that we meet today, just 6 days before our Nation celebrates Memorial Day, to discuss SBA's support for our veterans.

It was in 1866 that Henry Wells, a small business owner in Waterloo, New York, suggested that all the shops in town close for one day to honor the soldiers who were buried in the Waterloo Cemetery. One hundred years later, Congress and President Lyndon Johnson declared Waterloo, New York, the birthplace of Memorial Day.

I can assure you that we are committed to improving veterans' access to all of our financial, technical and management assistance programs. SBA seeks to reach out and serve all of America's 25 million small businesses, including those owned by veterans. Though veterans are eligible and do use all of SBA's variety of finance, technical assistance and contracting programs, the administration wants to ensure active veteran participation in all of SBA's programs.

In an effort to better serve our customers, including veterans, we have been reviewing the effectiveness and, where needed, modifying all of our programs in an effort to make sure they keep pace with market trends, remain relevant and meet our customer's needs.

There are many aspects to this much-needed effort, including restructuring and modernizing the agency's delivery system to best serve clients in the 21st century. I started these efforts by personally visiting with each program manager in the agency to discuss ways in which their particular programs could increase veteran participation and better serve the veterans who do use their programs.

We have provided training to and enhanced the responsibilities of the Veterans Business Development Officers stationed at each SBA district office. These are the people on our front line who personally meet with veterans seeking business assistance and provide referrals to our resource partners.

Additionally, SBA designated a full-time veterans coordinator in our Office of Government contracting and enhanced that office's web page to better assist veterans with procurement.

We have also taken aggressive steps to partner with other Federal agencies and the National Veterans Business Development Corporation to increase resources available to veteran entrepreneurs. This past year we asked the Corporation and the Departments of Veterans Affairs and Labor to participate in our National Conference for Veterans Business Development Officers; and, in turn, DOL has asked us to make a presentation on SBA's veterans programs at their National Conference.

We have also entered into discussions with both DVA and DOL to explore efforts to coordinate small business assistance for service disabled veterans participating in DVA vocational rehabilitation and to enhance outreach and training for DOL field staff regarding entrepreneurship opportunities for veterans. Additionally, we have worked with the Corporation on all of their efforts thus far and will continue to do so.

In fiscal year 2002, SBA renewed our cooperative agreements with our Veterans Business Outreach Program Centers. We are pleased that the number of veterans served by this program doubled in fiscal year 2001.

Also, in fiscal year 2001, SBA conducted special veterans and service disabled veteran outreach events through seven SBA district offices. In fiscal year 2002, SBA is increasing this number to a minimum of 17 district offices.

SBA's Office of Government Contracting included veterans' procurement information in approximately 400 procurement conferences in fiscal year 2001. Every agency, including SBA, has been given a statutory 3 percent service disabled veteran Federal procurement goal for 2002. To help meet this goal, training was provided to all SBA government contracting staff. Additionally, government contracting area directors have been tasked to develop ongoing programs to emphasize, publicize and promote the 3 percent procurement goal for service disabled veterans.

Before I conclude today, I would like to report some important information to you on the Advisory Committee on Veterans Business Affairs. After reviewing the backgrounds of over 50 highly qualified candidates, there are now seven candidates awaiting final clearance to serve on the Advisory Committee on Veterans Business Affairs.

This concludes my testimony. Once again, thank you for this opportunity to discuss SBA's business development program for veterans. I am pleased to answer any questions you may have.

Chairman DEMINT. Thank you, Mr. Elmore.

[Mr. Elmore's statement may be found in appendix.]

Chairman DEMINT. Mr. Soares.

**STATEMENT OF FRANK SOARES, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION**

Mr. SOARES. Mr. Chairman, distinguished members of the Subcommittee, it is a pleasure to speak before you this afternoon about our progress in servicing the service disabled veterans through The Veterans Corporation. I was privileged to receive one of the initial presidential appointments to our Board of Directors in October of 2000. For almost a year I have served as its chairman.

Although Public Law 106-50 was passed in August of 1999, I think it was more accurate to date the Corporation's progress from the date it received its initial funding in 2001. Once a temporary staff was hired, we began an extensive search for the strong leadership necessary to meet and exceed the law's mandates to expand and improve access to technical assistance regarding the entrepreneurship for the Nation's veterans and to assist veterans, including service disabled veterans, with the formation and expansion of small business concerns by working with existing organizations.

With that as our mission statement, we conducted a nationwide search identifying six high-quality, top government and military leaders that had the experience, skills and abilities to make The Veterans Corporation successful.

We carefully considered each candidate and selected Major General Chuck Henry. He is absolutely the right choice to ensure the Corporation's success. His distinguished service to our Nation combined with his shrewd business sense and strong leadership will give our veterans a real champion they so richly deserve. His efforts during the short period he has served as the Corporation's CEO and president have been remarkable for the significant progress he has made in creating a viable business operation devoted to accomplishing the mission that you have given us.

To achieve our mission, the Board of Directors and I have created both a vision and goals for the Corporation. Our vision is that The Veterans Corporation will be the premier organization in the world assisting American veterans, including service disabled veterans, in creating and expanding their entrepreneurial endeavors in veteran-owned small business enterprises by providing access to knowledge, tools and resources necessary for success.

We have numerous goals which I won't recite here but I did include in my written testimony.

One of my goals is to establish and oversee the Professional Service Advisory Board, PCAB, which is provided for in Public Law 106-50. The Board is intended to create uniform guidelines and standards for the professional certification of the members of the Armed Forces. This will aid in their efficient and orderly transition to civilian occupations and professions and remove potential barriers in the areas of licensure and certification.

This is an extremely difficult area that involves a complex web of certification standards and barriers that are nationwide at the Federal, State and local levels. At each level there is a multitude of organizations and interest groups involved in testing, licensing and certifying a vast array of civilian positions from welders to medical technicians.

Seventy percent of the Army's enlisted military occupational specialties have civilian job equivalents that are subject to licensure or certification. I am sure the other services have similar statistics. So you can quickly see the challenges the Board faces in researching, identifying and, most importantly, creating and attempting to implement nationwide standards that allow our service members to transition their skills smoothly into a level obtained by their civilian counterparts.

We will attempt to fund this effort through fund-raising but question whether this approach will work. The President of the

United States appointed our Board of Directors. They were selected on the basis of their personal achievements and for the knowledge and expertise they provide our organization and our partners. All of our board members are also veterans.

General Henry will detail the bold initiatives he has taken with the creation of several strategic business units to generate both services for the veterans and revenue for the Corporation. Those business units are just the beginning of many more complex business arrangements to support our veterans.

I strongly suggest that future nominations to the Board be individuals who have a solid background in veteran service organizations and/or considerable strong business experience that can help guide the Corporation during this dynamic and difficult period of growth to fiscal independence.

I thank you for the opportunity to speak before you today, and I personally wish to thank the Subcommittee members and their staffs who were instrumental in the creation of the successful passage of this legislation into law to help veterans establish and expand small businesses. It is good for the Nation and well-deserved assistance for our veterans.

Thank you. I am prepared to answer any questions.

Chairman DEMINT. Thank you, Mr. Soares.

[Mr. Soares's statement may be found in appendix.]

Chairman DEMINT. Major General Henry.

**STATEMENT OF MAJOR GENERAL CHARLES R. HENRY, U.S.A. (RET.), PRESIDENT AND CEO, NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION**

General HENRY. Mr. Chairman, distinguished members of the Subcommittee, I want to thank you for the invitation to come and testify today.

I want to also thank you for your outstanding legislation, Public Law 106-50. That is what brings us together. It honors our veterans by assisting them. It is a noble effort. It is deeply appreciated.

Let me tell you a little bit, of what we have accomplished over the past 200 days at The Veterans Corporation. More detailed information is in my written testimony which is submitted, but I will try to summarize it, with your permission, Mr. Chairman.

The law gives us five goals. One is to increase business opportunities for veterans and service disabled veterans. The second one is to raise matching funds, develop information centers, privatize the Corporation, get it so that it is successful on its own, and create the certification board for standards.

Mr. Soares has spoken to you about the certification standards, but what I would like to do is to tell you that The Veterans Corporation has established itself as an umbrella for business development operations. Below the line we have created strategic business units, and we have created four of those. The first one is a venture capital fund called the Veterans Venture Capital Fund, and through the help of Mr. Elmore it is working its way through the SBA. We envision this to be a \$120 million venture capital fund of which The Veterans Corporation will have a 10 percent carried in-

terest, 10 percent stake, if you will, and that will provide us the opportunity to make investments to veteran-owned businesses.

The second one is an electronic marketplace for veterans and service disabled veterans' businesses who wish to buy and sell. This marketplace is operated with our strategic business partner eScout of Kansas City. It is up and running. It is in its very infancy at this point, but we have 26,000, not all veteran businesses, on it. Our goal is to have over 1,000 veteran businesses posted on the electronic marketplace by the end of this fiscal year. This allows veterans to go from regional to national in scope, overnight.

The electronic marketplace is dynamic. It is growing very fast. \$5 billion a month is being consumed within the Internet marketplace as we speak.

The third is access to capital. To provide access to capital, we have established relationships with banks, and we have two of those established to provide micro loans to veterans. Our goal is to have, within the next 18 months, the entire country covered with banks that will make loans to veterans, speed up the process, if you will.

The last one is providing training for business owners with the Kaufman Foundation out of Kansas City, a very respected entrepreneurial organization. They have provided us with Entre-World, which is a respected web site to tell business owners how to deal with businesses, how to create their business plans, how to do the intricacies of building and running their own businesses.

Additionally, the Kaufman Foundation has given The Veterans Corporation Fast Trac, which is a program of training. The statistics say that, for those who have taken it, 70 percent are still in business 5 years later.

Wrapped around those two combinations we feel that we can provide a delivery of services that will be second to none for veterans in building their corporations.

Matching funds. With the help of the Kaufman Foundation and with the help of pro bono work from legal services and some others, we report today that we have met our \$2 million in matching funds for this fiscal year; and we project that that will be ongoing in the out years.

Our efforts to privatize are making good progress. I have in the past 2 weeks received commitments for \$550,000 in cash from two sources to date. Our direct mailing was launched last week. Our business will ramp to meet the revenue goals.

We are now telling the story, and that story is good. We were featured in an article in the Chicago Tribune's Small Business Section. We have been reported in the American Banker. CBS Marketwatch, Dallas News, NBC, and Kiplinger. AOL Time Warner has offered us public service spots. We will shoot those next week. Saturday, I will be on a veteran radio talk show to be broadcasted in Hawaii, talking about veterans in businesses; and on Sunday I will be speaking with Secretary Principi at Rolling Thunder.

Sir, my time is up. It is a real pleasure to come. I think that we are on a marathon, not a sprint. We are building the company around two principles: Build a solid, self-sufficient company on

business principles and provide for the delivery of quality services to the veteran community.

Subject to your questions, sir, I stand by.

Chairman DEMINT. Thank you, General Henry.

[General Henry's statement may be found in appendix.]

Chairman DEMINT. Mr. Gatewood.

**STATEMENT OF WAYNE M. GATEWOOD, JR., PRESIDENT AND  
CEO, QUALITY SUPPORT, INC.**

Mr. GATEWOOD. Good afternoon, Mr. Chairman and distinguished Subcommittee members.

First of all, I am proud to be here. I am a retired Marine Master Sergeant who served 21 years in the Marine Corps, retired 15 years ago, and I receive a 20 percent disability from the Veterans Administration. This is what America is all about. I am just so proud to be here before you. Thank you so much.

For the past 12 years I have owned and operated Quality Support, Inc., starting the business in my home with \$600. Today Quality Support employs nearly 100 people. It was largely because of the SBA 8(a) program that Quality Support developed as a successful firm, and I thank the SBA for the opportunity to have been a member of the 8(a) Business Development Program. It is a wonderful program.

I was very pleased to see the signing of Public Law 106-50. Unfortunately, I personally do not believe much progress has been made since the signing of this law.

The National Veterans Business Development Corporation has yet to compile a concise database of veteran- and disabled-veteran-owned business. If the Corporation does not know who we are, where we are and what we do, there is little chance of veteran-owned firms receiving mandated assistance and guidance.

I have seen little, if any, evidence of interaction between the Corporation and the average veteran-owned firm such as my own. Since the signing of Public Law 106-50, my firm has yet to be invited to any type of corporation gathering, nor have I received mailings that outline progress made by the corporation and/or discuss current services and/or opportunities available to my firm.

The law requires an Advisory Committee on Veterans Business Affairs be established not later than 90 days after the date of the enactment of the Act. The duties of this Committee are very important, and this Committee is absolutely essential to the success of Public Law 106-50. However, it has been 2 and a half years since the signing of the Act, and the Advisory Committee has yet to be established.

The law states government-wide goals for participation by small business concerns owned and controlled by service disabled veterans shall be established at not less than 3 percent of the total value of all prime contract and subcontract awards for each fiscal year. Again, I have seen little, if any, progress in this area and do not believe any government agency is making the 3 percent subcontracting goal.

I have some recommendations:

Immediately establish the Advisory Committee on Veterans Business Affairs as required by law.

Ensure the inclusion of all veteran-owned and service disabled veteran-owned firms in a comprehensive and current database to facilitate actions consistent with the spirit and intent of the law.

The Corporation should identify prime contractors who are seeking to do business with veteran-owned firms, and a listing of these prime contractors should be made available to all veteran-owned business.

Also, bring veteran-owned firms together with prime contractors and government procurement officials so these groups can discuss potential contracting opportunities.

Make an assessment of the policies and procedures now in place at Federal Government agencies and ensure there is an active promotion of the 3 percent subcontracting procurement goal.

Subsequent to contract award, assess and monitor the subcontracting progress or lack thereof made by Federal Government agencies and their prime contractors. Those prime contractors that fail to make their goals should be precluded from participating in further Federal Government procurements until such time as they have rectified their deficiencies.

The SBA Corporation Advisory Committee and the Department of Veterans Affairs need to work closely with one another to ensure they are all working for the same goals under agreed-upon procedures and that turf battles do not take place at the expense of the American military veterans.

Also, illegitimate, unofficial, for-profit organizations that promote so-called veterans rights need to be identified and our veterans made aware of and warned of their existence.

Finally, and most importantly to me, sir, the Federal Acquisition Regulations, FAR, and similar regulations need to be revised to authorize set-aside procurement opportunities for veteran and service disabled veteran-owned firms.

Federal law currently precludes contracting officers from offering veterans and disabled veteran-owned firms the same set-aside advantages offered socioeconomic groups, hub zone businesses and, to some degree, women-owned businesses. Unless procurement regulations are modified to include a degree of set-aside authority for veteran and service disabled veteran-owned firms, it will be extremely difficult if not impossible for government contracting officials to reach specified goals.

In closing, I would like to say that Public Law 106-50 can only be effective when it is taken seriously by all concerned. Laws without clear accountability do very little to motivate people into action and to achieving desired results. Results need to be continually assessed and measured, and people in positions of authority and applicable Federal Government agencies need to be held accountable.

Thank you, sir.

Chairman DEMINT. Thank you, Mr. Gatewood.

[Mr. Gatewood's statement may be found in appendix.]

Chairman DEMINT. Mr. Lopez.

**STATEMENT OF JOHN LOPEZ, PRESIDENT, ASSOCIATION OF  
SERVICE DISABLED VETERANS**

Mr. LOPEZ. Good afternoon, members and Chairman DeMint.

Without objection, I shall summarize my testimony and submit written testimony for the record.

I have focused my testimony on the provisions for Federal procurement participation by businesses owned and controlled by service disabled veterans.

Although the United States Congress in its Public Law 106-50 findings and legislative language stated clearly that the intent of the Congress was to "increase the participation of service disabled veterans businesses to a goal of not less than 3 percent of the total value of all prime contracts and subcontract awards for each fiscal year," this has not happened. In fact, there is little credible evidence that the intent of the U.S. Congress was even considered. It is now nearly 3 years since the enactment of Public Law 106-50, and available data show little progress towards the goal. There is only the traditional bureaucratic mumbling regarding coming efforts and other priorities.

America's veterans are dying at the rate of 1,200 per day, and the mounting frustration with broken promises and bureaucratic manipulation is becoming a major disgrace and embarrassment of our Nation's government, because rehabilitation assistance delayed and manipulated is rehabilitation assistance denied.

The United States Congress must take action to provide to service disabled veterans businesses those mandatory requirements afforded to other special groups. The denial of equal assistance to those who sacrificed and enabled prosperity for all our citizens is an unmitigated disgrace and an unadulterated abuse.

I would be pleased to answer any of your questions.

Chairman DEMINT. Thank you, Mr. Lopez.

[Mr. Lopez's statement may be found in appendix.]

Chairman DEMINT. Mr. Eiland.

**STATEMENT OF TONY EILAND, NATIONAL OFFICE OF VETERANS EMPLOYMENT, VETERANS OF FOREIGN WARS OF THE UNITED STATES**

Mr. EILAND. Thank you, Mr. Chairman, ranking member and members of the Subcommittee. Thank you, Mr. Chairman, for inviting the Veterans of Foreign Wars here today to testify before the Subcommittee to comment on H.R. 3263, the Veterans Small Business Relief Act of 2001, and to express our evaluation of the Small Business Administration's programs and services for veterans as well as The Veterans Corporation.

Mr. Chairman, concerning our views on H.R. 3263, the Veterans Small Business Relief Act of 2001, we support its timely enactment. We see it as a welcome measure to ensure that disabled veterans small business owners have an additional opportunity towards success in today's challenging economy.

Mr. Chairman, when assessing and analyzing the role the SBA has played with assisting future as well as present veteran entrepreneurs, we must look at the SBA with a proper perspective and understand exactly what it is we as veterans want from them. Then we must define how we expect to hold them accountable for what they can control and measure those things that can be measured and reasonably obtained.



We see the SBA is making headway in this process through a cooperative effort with both the Department of Veterans Affairs' Center for Veterans Enterprise and with The Veterans Corporation.

The VFW has enjoyed a productive relationship with the Assistant Administrator for Veterans Affairs, William Elmore, and his staff within the SBA's Office of Business Development. Two staffers primarily have stood out, Mr. Ajoy Sinha and Mrs. Audrey Moore. They have both been very helpful providing direct personal assistance to veterans from our organization on a one-to-one basis by offering a strong hands-on approach.

We have had members directly contact our office commenting on the superior service and assistance they were provided in either developing particular details for their business plans or simply looking for specific information to answer unique questions.

Another item that deserves to be mentioned is the U.S. Business Advisor Website that has been sponsored by the SBA. It has been an effective tool in providing general business assistance that promotes small business within our membership and have received free assistance in expanding their business and removing obstacles that could lead to potential disasters.

While the SBA has performed an adequate job with the funding they have been provided with, there is still more that can and must be done. Unfortunately, their ability is severely limited because of minimum funding levels that have been placed upon them by the Administrator. This does have a direct impact on the scope and quality of the veterans' programs and services that can be of use for outreach, be it either through mailings, promotional campaigns or seminars.

Another critique is the involvement of the SBA with the veterans groups themselves. For example, our relationship with the Office of Veterans Business Development has improved. The VFW remembers the promise was made about wanting to expand the relationship with the Veterans Service Organizations. Unfortunately, we have only seen limited examples outside of the Office of Veterans Business Development. We have yet to meet with the Administrator, let alone speak with him directly to voice our desires and concerns.

In addition, we are also disappointed in how long it has taken the Administrator to complete the SBA Advisory Committee and seeming overall lack of overall commitment towards our concerns for disabled veterans as a whole. The VFW is very disappointed that this issue has not been treated with the sense of urgency that it deserves. While we understand that we are not the only programs that the SBA oversees, we still desire to be treated with a balanced, even-handed approach.

At this critical point in time, veterans' programs are essentially here to serve as a good-faith gesture between the government and the people whom they serve to be guaranteed the opportunity to maximize any small Business Development Program. The VFW does not view the programs of the SBA as simple entitlements to be given out but as investment in the long-term economic growth and stability of the U.S. Economy.

We want to be completely frank. The VFW does not want a give-away program mentality or anything for that matter that would di-

lute the credibility of the veteran or disabled veteran business owner. Whether black, white, Hispanic or Asian, male or female, service disabled or economically impoverished, veterans have earned, through their dedicated service commitment to their country, the right to be offered an opportunity to compete on an equal playing field with every other group that has been provided a service by the SBA for long-term solutions for establishing business ventures.

Mr. Chairman, we believe that the SBA can only be successful in its mission of assisting veterans if it has the following components: the full support of the Congress through maintaining strict implementation of existing laws and provisions that will enable the SBA to be effective and adequate funding of the Office of Veteran Business Development.

There also has to be a clear understanding of where the veteran community belongs within SBA. Be it through a realistic goal-setting measurement that is obtainable, taking into account the service disabled veterans' individual situations or creating a Small Disadvantaged Business, an SDB, status for a disabled veteran-owned business that will allow them to compete on equal ground within the SBA as a disadvantaged business enterprises is a must.

Mr. Chairman, the opinion of the VFW is that The Veterans Corporation, in its present form, has only been in effect for approximately 200 days, not enough time to make a credible assessment of their progress. Yet the VFW does see the potential for The Veterans Corporation and are committed to assisting and working with them to achieve a source of answers for our veterans' small business questions and also putting them in a position to find sources of financial revenue.

We understand that anything worth having is worth setting up correctly from the beginning. Mr. Chairman, we need to maintain a focus that everything we are doing here today is for the one purpose and one purpose only, to assist veterans, especially disabled veterans, establish successful, independent small businesses and become as self-sufficient as possible to add to the continuing economic growth of our country.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or the members of the Subcommittee might have at this time.

Chairman DEMINT. Thank you, Mr. Eiland.

[Mr. Eiland's statement may be found in appendix.]

Chairman DEMINT. Mr. Weidman.

**STATEMENT OF RICK WEIDMAN, DIRECTOR, GOVERNMENT  
RELATIONS, VIETNAM VETERANS OF AMERICA**

Mr. WEIDMAN. Thank you very much, Mr. Chairman. I would like to echo the sentiments of my colleagues in tremendous thanks to this Committee. This is where Public Law 106-50 began, with this Committee; and we thank you for your oversight hearings, two of which were held last year and, of course, this hearing today.

I would point out also that the impetus for the original legislation came from Mr. Roscoe Bartlett's Committee, a joint hearing he had with the House Veterans Committee, which was a bipartisan hearing. That got the ball rolling. So we owe you a great debt, sir.

Now we have to make it a reality. The struggle over regulations went on for over a year before we got some regulations that were substantially correct, published in early January of 2002 after several false starts. It was the kind of woeful ignorance that really cannot be explained, only by incompetence, although I keep in my office the old saying that “never attribute to malice in Washington that which can be explained by sloth and by incompetence.”

But finally we do have regs that are fairly accurate, but we don't have an impetus from the executive branch overall, from the President, from OMB, and from the Cabinet level in order to make sure that the 3 percent procurement goal happens.

Secondly, in regard to a number of comments that were already offered today, the Small Business Development Corporation or the National Veterans Business Development Corporation, also known as The Veteran Corporation, was created to fill in some blanks and not to do everything that SBA with its almost billion dollar budget is doing.

Public Law 106-50, we would refer every single employee of the Small Business Administration back to the black letter law; and I would refer all of the distinguished members who have made it here today and your staff back to the black letter law, which says that veterans, particularly disabled veterans, service-connected disabled veterans shall be given priority and given a high status within every single program operated by the Small Business Administration.

In fact, almost no programs at the SBA have revamped as a result of this law which took effect immediately and was enacted on August 17th of 1999. In fact, it changes everything right throughout the agency, or it is supposed to. That is clear that that is the congressional intent, not just from the letter—black letter law but also from the Committee report from the House that went forward with it.

So we would ask the Committee to look carefully at that and to urge the new Administrator, Mr. Barreto, to issue an administrator's order and regulations, where necessary, in order to bring the pattern, practice and policy of SBA into accordance with what is in fact black letter law under Public Law 106-50.

I would also just commend many of the fine activities that have happened at SBA. Many of the activities are, in fact, well done; and the only problem we have from the veterans' community, the 24 million veterans in this country and those who are disabled and their families, is that our folks are left out if they identify as a vet. And I think that that is just the key to look at throughout this thing.

We have gotten very good cooperation, I might add, and tremendous leadership out of the new small business advocate. Mr. Sullivan has met with us and is setting up a series of seminars and roundtables with the Task Force on Veterans Entrepreneurship over the next year and a half. We are proceeding on that and will keep the Committee posted, sir.

There are a number of things that we would ask you for.

Firstly is we have not received a single official report since August of 1999 which was mandated in the law.

Secondly, the study that was mandated in the fall of 1997, SBA has been keeping in camera ever since that time. It was formerly delivered to the agency in the fall of 1998, and we would ask that the Committee demand that it be turned over to the Congress. It was a major study of veterans, a \$400,000 study which has still not been supplied to the Hill nor made public.

Last, but by no means least, in that regard there is a study that is under way now that we urge be brought forth and the last two annual reports of SBA.

I have attached as an attachment to my statement, Mr. Chairman, a list that is the beginning of legislative goals. A task force which consists of all of the major veterans organizations participating in one way or another in the Task Force on Veterans Entrepreneurship will be coming together on June 11th.

We ask the leave of the distinguished members of the body, the Chair and the ranking Democrat in order to work with staff to put together legislation that would fine tune the intent of this Committee that was expressed in Public Law 106-50 over 3 years ago.

There is no better time to take that step.

I would add that I mentioned this before an oversight hearing, chaired by Mr. Bartlett jointly with Mr. Quinn and strong participation with Lane Evans, 4 years ago this week, and that is what started the ball rolling on this. There is no better time than this week to determine, as we reflect on those who did not come home from every war our Nation has ever fought, and those young men and women who will not return from Afghanistan, from East Africa, from Iraq or wherever they are defending all of us, the American people, against those who would do us great harm and destroy us as human beings and our way of life—there is no better time to take the steps in order to fine tune what we have learned over the last 3 years since enactment of 106-50 and move forward.

Mr. Chairman, I thank you for the opportunity and for the privilege of presenting the views of Vietnam Veterans of America here today and sharing at least some of the general views of the task force and our distinguished and fine colleagues there.

Thank you, sir.

[Mr. Weidman's statement may be found in appendix.]

Chairman DEMINT. Thank you, Mr. Weidman. I will start with a few questions, and I know our committee members have some too.

Mr. Elmore, I will begin with you. Just a quick question. Is there any reason that this veterans report that was just referenced cannot be delivered to this committee in the next week?

Mr. ELMORE. In fact, the report itself was delivered. I am not sure of the date. I believe it was last summer or last fall; I would have to check with staff. What Rick has referenced was a study by the SBA Commission that was a part of that report, but it wasn't the report itself.

Chairman DEMINT. Right. But the report does exist—

Mr. ELMORE. Yes. The report was forwarded to Congress last year.

Chairman DEMINT. Well, we would like the complete report, and if it has been delivered before, I would appreciate it if you would deliver it again so I can get a look at it myself.

Mr. ELMORE. We absolutely will, sir. Thank you.

Chairman DEMINT. Just a few questions.

I know you have heard a lot expressed in appreciation of the SBA's role for veterans, but one of the major reasons for this hearing is to figure out how to improve what we are doing, particularly how to comply with 106-50; and you have heard a number of concerns expressed. The concerns that have been expressed that bother me the most are just the lack of adherence to law, the lack of the reports that were required, the advisory committee not being appointed, the 3 percent procurement mandate. These things that have been brought up obviously are of concern because our hope is, if we pass a law, that it will be implemented as we had asked.

Do you have any comments before the members ask questions about what is going on?

Mr. ELMORE. I can try to address those three, sir.

The advisory committee, I will start there. We were asked by Congress in—I believe this was either before or just after I came to the agency—in 2000, to hold off on the naming of the advisory committee until the nine members of the board of directors of the corporation had been named.

The ninth member of the corporation was named last October by President Bush. Up until that point, we had gathered approximately 50 candidates and background information on those candidates; and those are the candidates that are now being evaluated, but we did not as an agency begin to move on that until after the ninth member was named.

Now, on the reports, we did submit the 1997 report, and that was a report that after I came to the agency we caught up, we put together and we sent to Congress. The 1999 and 2000 reports were not completed before I got there. We have completed those in my office and they are going through final clearance in the agency now. So as soon as they are cleared, they will be provided up here. My staff is presently working on the fiscal year 2001 report.

Now, on the 3 percent goal—and I will give you my take on the history of this—when I came to the agency in the summer of 2000, that goal was not being acted on by the FAR Council. As I dug into that, within literally the first 30 days on the job, I went to others in the agency, including the Administrator, and urged that we implement what I perceived to be a misinterpretation of the intent of Congress by the FAR Council to go ahead and establish the 3 percent goal at the prime contracting level and a 3 percent goal at the subcontracting level. But there was an interpretation by the council that included service-disabled veterans and veterans at the subcontracting level. That was not what Congress intended, I did not believe.

So I worked with Congressional Affairs at the same time that we implemented that bad rule—and I will tell you why I did that and why I urged that—and the Administrator agreed was that if we waited until we got technical amendments from Congress to change that interpretation so that FAR couldn't, in my view, misinterpret, we would have put procurement for disabled veterans another year later.

So I moved—implemented the bad rule, sought the technical amendment. We secured the technical amendment. We then

amended the rule, and that's why it took until January, 2002, to finally get what I think is an appropriate and an accurate rule.

Now, I can't speak to all the reasons why all those implementations and interpretations of what Congress intended happened. I can tell you what it is we did, though; and I moved as aggressively as I could, and the agency has assisted me and supported me in trying to do that.

Now, I will readily admit the level of success of Federal procurement for service-disabled veterans—and I would point out, for veterans as well—in fiscal year 2001 was not good. It was nowhere near the 3 percent goal for service-disabled veterans. There is no goal for veterans, but there is a best efforts clause; I was disappointed in that.

All I can say, for a variety of reasons, is that I think from data collection problems to perhaps lack of information out in the field with the thousands and thousands of procurement officials, et cetera, et cetera, we obviously didn't achieve the 3 percent goal the first year. We are going to do everything we can to try to get that done.

Chairman DEMINT. We would like that as well, and we would like to know from you if the obstacles are internal or external, if there are things we can do from our side of the desk here to help open the door to make these things happen; because I think everyone who is at the table has agreed today that we have a good law, a good law that would work if it gets implemented; and we need to make sure we know why it is not.

I have got more questions, but I will allow some of the other members.

Mr. Pascrell, do you have questions?

Mr. PASCRELL. Thank you, Mr. Chairman.

The whole issue, as you know, Mr. Elmore, of procurement is one that bugs this committee for many, many years. We seem to be going backwards and not forward. We don't seem to be getting any action, and the chairman, the committee as a whole threw its arms up in the air at data that we have been presented.

And I don't think this is any mystery; I don't think it is any secret that we are spinning our wheels and we want to see a breakthrough. I would hate to see the next set of questions about it go unanswered, or no improvement because we do not have improvement. You know that as well as I do.

In terms of 3263, do you believe that waiving the 7(a) fee requirements for recent veterans would cost the SBA a substantial sum of money?

Mr. ELMORE. It is a difficult question to answer because we don't know how to determine how many veterans would have been discharged in the last 5 years that are 7(a) loan recipients. That question certainly has not been asked thus far from the—

Mr. PASCRELL. We do know how many would be eligible that are leaving the service, and we have a good idea—

Mr. ELMORE. We know how many are discharged approximately each year, yes, sir. The concern from the agency's perspective is that under the Federal credit rules if we decrease fees for one group then we would have to increase fees for other groups of borrowers. So while I am certainly a veterans' advocate and will be

until the day I am done, for us to turn and increase costs for other groups of Americans so that veterans get a special benefit—we have concerns about taking that approach.

Mr. PASCARELL. Why? Do you think it is unconstitutional?

Mr. ELMORE. No. I think just to extend the cost that veterans would save, if you will, to other Americans is not perhaps the appropriate way to approach it.

Mr. PASCARELL. I don't think you are going to get any complaints from whoever those other groups are and I would suspect, because I use the numbers we know of in New Jersey, what is going to happen over the next year.

I think that, from what I see—and I am asking you to correct me if I am wrong—the SBA could afford a fee waiver for all veterans within the scope and within the reasonableness of the problems we are having with the budget at this particular time, because everything has become a priority and that is why nothing is a priority. And as far as I am concerned, and I would hope in your position as far as you are concerned, veterans are a priority, correct?

Mr. ELMORE. Veterans are certainly a priority. I can tell you as we go through and evaluate all of the agency's programs, one of the programs we are looking at is all of our lending initiatives and, in that context, if there are ways that fees can be reduced and restructured. And I think, as you are aware, sir, the agency is trying to move toward smaller loans in a number of arenas, and I think that would be important to veterans.

Now, that doesn't impact the fees necessarily, but I can tell you that, historically, about 60 percent of the loans that veterans receive guarantees on from the agency are below \$150,000. So that is obviously where the majority of the veterans market is in that smaller arena.

I am not sure what else I can tell you, sir.

Mr. PASCARELL. Well, it seemed to me, first of all, we have to support 7(a) loan program. Right, Mr. Chairman? I think that would be the first step. We can't afford to have any finagling with that number, any reduction of that number.

Americans have spoken out on—we pound our chests about veterans, and if we are not willing to step up to the plate, it becomes—and you heard these gentlemen say—"empty words." I am sure you don't want to be in front of the march that provides simply empty words, Mr. Elmore.

You have got a big job on your hands.

Mr. ELMORE. Yes, sir.

Mr. PASCARELL. And we want to be of assistance here. We don't want to make things more difficult for you. I think it is important that we do what we have to do, and if you think we have to do this, you have got the support, I think, of the folks at this side of the table.

One more quick question, Mr. Chairman, to Mr. Gatewood.

Mr. GATEWOOD. Yes, sir.

Mr. PASCARELL. Your statement was very short and concise. You are obviously not a Member of Congress. But you said a lot in a very short period of time.

Mr. GATEWOOD. Thank you, sir.

Mr. PASCRELL. When you retired from the military, what were the main hardships you faced while adjusting to civilian life?

Mr. GATEWOOD. Other than the psychological challenges after 21 years in the Marine Corps, it was—to start my company, was getting money. I could get no loans from no bank. There was no traditional bank or institution that was ready to give us money at all.

I started with \$600 and received loans from my dad, and I think I took on about 17 credit cards at 20 percent interest; that was it.

The other issue which was very difficult was to get work, and although the Veterans Administration is not here today, I would like to say that in the 12 years I have been in business I have had very little, if any, help from the United States Veterans Administration. I have been in business for 12 years, and I have never seen an opportunity available to firms such as myself in the procurement area.

I have spoken to people at the Veterans' Administration, asked them to look very closely at the policies and procedures they have in place. Unless the people in these agencies reach out and touch the grunt—I call us “the grunts”—in the field, us small business people, unless you reach out and actually touch us and tell us what you are all about, we cannot avail ourselves of your services.

It is very important that there is dialogue between us folks out here in the field and the corporation and the SBA.

Mr. PASCRELL. Thank you Mr. Gatewood.

Thank you, Mr. Chairman.

Chairman DEMINT. Thank you, Mr. Pascrell.

Mr. Bartlett.

Mr. BARTLETT. Thank you very much, and I am very pleased to be here. As you know, I also serve on the Armed Services Committee, chair the panel on Morale, Welfare and Recreation and have been a big supporter of veterans for all of my life. My father was one in World War I.

Mr. Chairman, we are now discharging our constitutional responsibility in oversight. We are here today some 3 years after enactment of law; it is unfortunate today that what we are hearing is that the results of this law have not been as anticipated, because it has really not been implemented as it should have been implemented.

I thought we had in place a Chair, a position in the Office of Advocacy that was focused specifically on veterans' issues. That person or persons ought to have been telling SBA and whomever else is involved in compliance with the law, you really need to be doing this, or there is going to be a day of reckoning when you sit before a congressional committee; And they are going to be asking you, why haven't you complied with the law?

I thought also that we had kind of isolated the Office of Advocacy from the Small Business Administration so it wouldn't be a case of the guard in the cabbage patch; that the Office of Advocacy would really be free to be advocates for small business people relative to the Small Business Administration, as well as to the other government agencies where it has a prime responsibility.

Were any of you in contact with the veterans' Chair in the Office of Advocacy, and if so, what response did you get from them?



Mr. Weidman, you mentioned the Office of Advocacy in your testimony.

Mr. WEIDMAN. I did, sir. There is not a specific person within the Office of Advocacy. We work most closely with Joe Sabota and with the new chief economist; and as I mentioned before, last week, we met for over an hour with Tom Sullivan, who is the small business advocate today, who was appointed by President Bush. He has committed to doing a round table regularly with the veterans' organizations, trying to find out what do we need and at least substantive—sponsoring four substantive events, as well as holding an event to get us together with NSBU, with NFIB, et cetera, the mainstream business organizations, to find out where we can plug together common ground.

The problem has to do with the other entities within the SBA, the role you described, sir, as I understand the law anyway, is the role that the Office of the Associate Administrator for Veterans' Business Development plays. And they are supposed to have that far-ranging kind of authority, which is why this committee saw fit to have that person for Veterans' Business Development report directly to the Administrator.

I have no direct knowledge of this, one way or another, but it would appear from the outside, those who have had a chance to meet the Administrator—who seems to be a very bright, intelligent guy—during Small Business Week last week—was that last week; it seems like about 2 years ago, given the pace of the Congress this spring—that he is not familiar and not involved in day-to-day running of the veterans' program.

Perhaps it might be different if, in fact, that were the case. It would certainly be different if it was brought to the Administrator's attention, all of the things that are requirements—not cute ideas, requirements, legal requirements—of the Congress as recommended to the full body by this committee in regard to changing each and every program offered by the Small Business Administration.

So it seems to us it is not the Office of Advocacy, sir; we are getting good cooperation from there and from at least the association, ASBDC, and it looks like we are finally going to get some cooperation from SCOR. We would like to see more done by the Office of the Associate Administrator for Veterans' Business Development.

It is useful to remember that thanks to the efforts of this committee and your distinguished colleagues on the Appropriations Committee, as I recall, \$986 million went to this agency this year; and Mr. Elmore has a budget of 750,000.

In terms of the range and impact on the rest of the agency, that falls with the Administrator and the Chief of Staff to make it happen throughout that agency, and for the Administrator to take it to the White House to make it happen in the other agencies, when it comes to procurement, as Mr. Pascrell so eloquently described.

And I might add one last thing. There has been discussion among the veterans' group at the recent task force meeting about how can we work with this committee and the Appropriations Committee to get the attention of the heads of those other agencies, whether it be the Secretary of Defense or whether it be, you name it, from XYZ Federal entity, and perhaps working together with a

petition or a letter that would be signed by every Member on a bipartisan basis from this committee and the Appropriations Committee to the SECDEF, that the particular problem that we are having is with the Secretary of Transportation—which is shocking to some of us, because we thought Mr. Mineta was a veterans' advocate when he was in the Congress. But the Department of Transportation, including hiring air marshals, has been awful; and they are terrible on road transportation contracts and subcontracts, and are basically telling veterans, that law doesn't apply to you here.

Chairman DEMINT. Excuse me. We need to cut—

Mr. WEIDMAN. I beg your pardon, Mr. Chairman. That was just the tip of the iceberg, and there is a lot of frustration out here because all the good you all set in place is not becoming a reality, and yet—

Chairman DEMINT. We have got you. Thank you.

Mr. WEIDMAN [continuing]. Yet they get bonuses down at the agency.

Chairman DEMINT. I am sure we will get back to you.

Ms. Christian-Christensen.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman.

Most of us are up here feeling your frustration and your pain, and we appreciate the fact that the corporation has just been in effect for a short period of time. But you have a lot of catching up to do, a lot of catching up to do.

Let me ask the corporation my first question. You, like SBA and other Federal agencies, have initiated some programs that involve outreach and information sharing through the Internet.

Do you have any idea how many veterans have access to the Internet? In my district, I would imagine they are very few.

General HENRY. That is true.

Mrs. CHRISTENSEN. And how would you address that?

General HENRY. That is a good issue, and the question is the database that we have been asking for, if I may talk about the database, we have been through the agencies, DOD, to pick up the databases.

But the question is, we have no real database in order to answer the question how many veterans are there? We believe there are 24 million veterans out there, but when I start looking through the Federal Government to say, where is the database of all veterans, where can I find it? It doesn't exist, ma'am.

So what we have done is, we have gone to the VSOs, we have gone to the various people here. We have asked Mr. Elmore, we have asked VA. We are tapping into fragmented databases, and we are building one database as we go.

The answer to your question will be determined, though, by some type of focus groups that we give those questions to.

Now, we do know that what is happening—is this not working?

Mrs. CHRISTENSEN. I can hear you, but for the recorder—

General HENRY. It does appear that if we go to the focus groups and pick this up, we will be able to determine a little bit more with specificity on this line.

What we do know is that the Internet service, though, is growing very rapidly and that we have tied our future to what we are doing by setting up the electronic marketplace, going out and asking vet-

erans to register. The question is, do we charge veterans for it? And the answer is, no, we are not going to do that.

What we want people to do is to come to our Web site, sign on to our Web site, become identified. We are tied into SBA, we are tied into VA. We will then be able to drive that information back to.

Mrs. CHRISTENSEN. But my concern is that if the veterans don't have access—and maybe to some of the vet centers as a beginning because we can pretty much assume that a lot of veterans don't have access.

But before my time runs out, Mr. Lopez, in your statement you said the procurement policies of our government are like a Tower of Babel, unintelligible to most businesses.

Do you have any specific suggestions as to how to quiet the noise?

Mr. LOPEZ. I believe that the Federal Procurement Council and all the constituent agencies or parts of that should provide concise information in total. All of them should speak and say to the public at large, the business public at large, this is what we mean, this is what we intend. What you have now is this fragmented mess where you can go from one agency to another and get a different answer—

Mrs. CHRISTENSEN. You need a one-stop—like Labor is doing, a one-stop center with all the information—

Mr. LOPEZ. That would be a fine suggestion, but the problem is, you would have to get them to do it.

If I may depart for a second, Mr. Chairman, I would like to apologize for this, somewhat, whining that we do to you folks. We are talking to the choir. You folks have been great for us.

Mrs. CHRISTENSEN. But it gets on the record, and it is important.

Mr. LOPEZ. You have always been good to us and always agreed with us, and you have always understood us. It is the bureaucracy which stands there like a big stone wall and says, we don't care what Congress says, we are going to do what we want to do.

Mrs. CHRISTENSEN. We understand, and Congressman Pascrell and I were saying that in three scorecards we haven't gotten them to respond.

I guess this is to Mr. Gatewood. In your testimony, you stated that they didn't have a database. Is the ProNet system, did you consider that one of the questions—

Mr. GATEWOOD. I have been on ProNet for some time, and I consider it a very viable system. I think what the corporation needs to do first of all is utilize ProNet to identify those veterans and disabled-owned veteran firms that are already in business; and for the most part, I know that many are.

I have been on ProNet since its start.

Mrs. CHRISTENSEN. It is a good start?

Mr. GATEWOOD. Yes, ma'am. And those businesses that are about their business will find a way to get on ProNet and make themselves known.

But you had a very good point about Internet. I visited the corporation Web site, and it is put together well in terms of design, but a lot of it is just information, information dissemination, much

of which most of us already know. I would like to see names, telephone numbers, progress made.

And if I might depart from your question just briefly, back to the advisory committee, if you read Public Law 106-50, ma'am, and I am sure you are aware of it, this advisory committee is absolutely necessary to the operation of the corporation and Public Law 106-50. Without this advisory committee, you have no Public Law 106-50 and you don't have an advisory committee.

Mrs. CHRISTENSEN. Thank you. Two questions and one thanks. Chairman DEMINT. Mrs. Capito.

Mrs. CAPITO. Thank you, Mr. Chairman.

And thank you for your testimony. I would like to go to Mr. Gatewood.

In your response to the first question, asking how you got started, your financing, you talked about your credit cards and all these kinds of things. I notice that the corporation is going to be developing a venture capital fund. What suggestions would you give to them to be most effective at the frontline loan?

And I will give General Henry a chance to respond to this as well.

You mentioned in here that you will be using that venture fund for mezzanine-level businesses. Well, I remember a mezzanine is kind of between one and two, isn't it? Yes. So what is going to be on the ground floor, Mr. Gatewood, if you had some suggestions; and General Henry, if you want to respond.

Mr. GATEWOOD. First of all, I think, in all honesty, the SBA has their job cut out for them. When I started my business I started as a minority firm, an SBA Section 8(a). And it took me a long time to get certified as an SBA firm, and one of the reasons I couldn't get certified was, I didn't have any capital or revenue from which to start a company. Well, hello, that is why I am coming to the SBA.

But secondly, I think the most important thing to the veteran that is getting out is to be educated as to how you move in and about the community, particularly retirees, people that have been in some time, how you move in and about the Federal Government procurement arena. It is a very interesting community, and given that knowledge, then they can set about getting contracts through the Federal Government.

To that end, I would like to see a set-aside program set up for veterans, a program that allows us to get—disabled veterans—3 percent of the subcontracting dollars of all the primes. We are talking billions of dollars that these prime contractors get. And I will tell you now when that law was put into effect, I sent out over a hundred letters to prime contractors and over 40 letters to Federal Government agencies announcing to them that the law had been signed and our company was available to do business with them.

I have received two responses in 2 years.

Mrs. CAPITO. Thank you.

General Henry.

General HENRY. May I respond, Congresswoman, to his last point?

Mrs. CAPITO. Yes.

General HENRY. In my other life, I was the senior procurement guy for DOD, and what you heard here today on this 3 percent is absolutely true. You folks passed the 1984 Competition in Contracting Act that precludes anyone from giving the sole source unless you had a justification and approval; and there are seven exceptions.

If you really want to mandate 3 percent goals to service-disabled veterans, then you make it a set-aside because nothing else is going to work. The contracting officers out there will not be able to reach out and say, I have got this goal, it is a target; what I want to do is be a good guy, and I am going to do it because as soon as you do, you are going to have everybody else that was on that procurement list coming in and filing a protest, and now you have got it all messed up into the courts.

The only way it will work is as a set it aside. Otherwise, we are wasting our time on the issue of trying to meet a goal, and I think it is unanimous on this panel that it is something that is laudable and should be achieved.

Ms. MILLENDER-MCDONALD. Will the gentlewoman yield?

Mrs. CAPITO. Yes.

Ms. MILLENDER-MCDONALD. Thank you so much. The Co-Vice Chair of the Women's Caucus, thank you.

When you talk about set-asides, a red flag goes up as to the constitutionality of that, and yet I can certainly sympathize, empathize with what you are saying.

How do we get around this, given that there is no constitutional protection for individuals except based on race and gender? So how do we accomplish this and yet be within this constitutionally?

General HENRY. I believe this body could pass legislation that would require the Federal acquisition regulation to set aside 3 percent of Federal procurements for the support of service-disabled veterans.

Ms. MILLENDER-MCDONALD. Will you be the first in line to help us advocate for that?

General HENRY. Yes, ma'am, I will.

Ms. MILLENDER-MCDONALD. Thank you.

Mr. LOPEZ. Congresswoman, may I, with your permission?

Mrs. CAPITO. Yes.

Mr. LOPEZ. Supreme Court Justice Rehnquist has already stated that veterans and especially service-disabled veterans, who are essentially workmen's compensation cases of this government, are entitled to special consideration in all legal applications; and this was made in reference to a challenge relating to Public Law 209 and—I am sorry, with the constitutional change 209 in California, which you are familiar with. That is why they exempted service-disabled veterans from 209 because the Supreme Court had already spoken.

We consider these people to be unique and our direct—

Ms. MILLENDER-MCDONALD. Indeed—

Mr. LOPEZ [continuing]. Direct responsibility—not theoretical, not philosophical, but direct. We did this to them and we have to fix it.

Ms. MILLENDER-MCDONALD. Mr. Chairman, you and I have legislation to introduce. Thank you.

Chairman DEMINT. We do.

Mrs. Capito, do you have any more questions?

General HENRY. Can I go back and address—

Mrs. CAPITO. Venture capital, yes.

General HENRY. The venture capital at the mezzanine area, you are absolutely right. It is those start-ups who have run out of capital, but who still have a good product which the venture capital world would see as moving forward. And either we are dealing specifically with a veteran who is at that mezzanine area or we have imparted into that the requirements that they subcontract to veteran businesses.

It has a larger element on it, but I think more to your issue what we are looking for, as in the case of Mr. Gatewood, is for those small businesses who come out, who need to get the micro loans, that would allow him to get into business—\$600.

We have set up an operation with Southern Financial Bank. This came on the heels of September 11. The mayor of the city went to them and said, we need a process that will speed up the loan process. Now, to those that were otherwise creditworthy, when we came along with Southern Financial, we said, if we can do that for September the 11th victims, we can do that for veterans. We took that and we put together the plan with Southern Financial. We hit the news wires on it with Bloomberg.

Our phones have been ringing off the hook. We have got about eight proposals that we are evaluating at the present time. That is why I am saying our goal is to blanket the country so that any person similarly situated with Mr. Gatewood in the future will be able to walk in, under our sponsorship, to the bank and say, I need a loan, and get that loan timely processed and granted.

Mrs. CAPITO. Thank you.

I would like to make one closing statement, and I will use Mr. Gatewood's term about who gets to see the grunts. We see the grunts as Members of Congress. I have folks coming into my office all the time trying to find seed money for small businesses, veterans, disabled veterans and anybody. And it is difficult for us to know how to direct if we, even as Members of Congress, are not sure what is really out there. So you can imagine the next layer down, the difficulties.

So I think it is important that while you are blanketing the veterans, you blanket us as well with all of the information, your venture capital initiative and the rest of the things, so that we know how best to direct our constituents. Thank you.

General HENRY. We will be happy to. May I make one other comment on it?

I think your legislation, the reception—that is, being out in the public—is well received; and for veterans, maybe it is because of the time right now, we have an opportunity that if we can leverage the combined effects of what this body can give to us with what we have been able to do and the members on this panel, I think that we can create some very nice things for the veterans of this country.

Chairman DEMINT. Thank you very much.

Mrs. Tubbs Jones.

Mrs. JONES. Thank you, Mr. Chairman.

Associate Administrator Elmore, how many of the groups that are seated at the table this morning have you or your designee met with?

Mr. ELMORE. I think all of them, numerous times. Not only have I known and worked with the gentlemen to my left, all of them—some for better than 20 years—there have been ongoing meetings.

I participate in most of the Task Force meetings, for example. When it comes to the Corporation, SBA put together and hosted their first board meeting at SBA headquarters in September, 2000, and I have been involved, I believe, in every board meeting representing the Administrator since then, and virtually all of the strategic planning and many of the initiatives that, in fact, they are working on and moving forward on.

Mrs. JONES. So what is the holdup?

Mr. ELMORE. What is the holdup?

Mrs. JONES. Usually it is that you are not communicating with the people that you ought to be dealing with. Here you just told me that you spent 20 years working with these organizations.

What is the holdup?

Mr. ELMORE. I don't know that there is a holdup per se. There are certainly some parts of the law that have not been completely enacted yet. The Advisory Committee is one of those, and we talked about that earlier.

I can tell you that in fiscal year 2001 the number of veterans that received services from the SBA exceeded 100,000. Now, in my review of SBA data, all the way back to 1990, we never exceeded 100,000 veterans receiving services from the agency in at least the last 11 years.

I am proud of the fact that we went over 100,000. It reflects the good work of my office, my friends in the veterans community, the Corporation and lots of dedicated SBA employees who have done their best to ensure that veterans—

Mrs. JONES. Is it that you don't have enough staff?

Mr. ELMORE. My new office was created in January of last year, and we had a 75 percent increase in staff since that office was created. So we have moved on virtually every initiative—

Mrs. JONES. Mr. Elmore, don't take it so personally. I am talking about SBA as an agency. These gentlemen have sat here—and I was late, but I sat here for 45 minutes and listened to a dilemma that these veterans claim they are having; and I have sat here and listened to you say what a great job SBA is doing. But the links aren't quite making it; they are not linking together.

There is a problem here, and versus a slap at one another on the back saying how great we have done, what else can we do? What is the next step? What is the problem?

Mr. ELMORE. I don't know that I can tell you exactly what the problem is. I think my responsibility at the agency is to increase outreach and encourage veterans to participate.

Mrs. JONES. And how you are going to do that?

Mr. ELMORE. I have already been doing that through a number of initiatives, as detailed in my testimony, including this outreach poster.

Mr. Gatewood—

Mrs. JONES. Let me suggest this, seeing how you have such a wonderful relationship with these fine gentlemen at the table, and you have met with them on more than one occasion, and we have sat here for 2 hours listening to dilemmas that are presented: that you call together a meeting very soon with these gentlemen.

And maybe you would get a hold of their mailing list and their meeting dates. And you send a person from SBA out to their places, as well as send a communication to the members of their organization to get something going. That is what I suggest.

Mr. ELMORE. I will do that, ma'am.

Mrs. JONES. I appreciate it very, very much.

Have you got a suggestion, Mr. Lopez, Mr. Gatewood, Mr. Eiland, Mr. Weidman, of what else we could do? It is nothing personal, but I am about getting it done.

Am I out of time already? No. Okay.

Mr. LOPEZ. Congresswoman Jones, you are so perceptive. The record should state very clearly, what SBA has done for veterans, the task force and this body made them do. None of it was offered; none of it was their initiative. We had to pressure, and you had to pressure with us to get everything that we have accomplished to date, which is woefully little.

And you are very, very accurate and very perceptive; that is precisely the problem. They can talk about services to veterans, but what is a service? A man comes in one door, you give them a piece of paper and shove them out the other door, that is recorded as a service; and then they play number games, but our particular position in this society does not change. That is the evaluation, not how many noses you count.

Mrs. JONES. Mr. Weidman.

Mr. WEIDMAN. Yes.

Bill doesn't have the power, and he is proactive, but the Associate Deputy for Management, the Associate Deputy for Capital Formation, on and on, don't work for him. And so what is the Administrator doing, what is the Chief of Staff doing?

It is not that we are against the current administrator. Most of them have met him only at a cocktail party during Small Business Week, because we have never been brought in to talk turkey. And we are certainly willing to do that. General Henry has brought us in. He meets with us regularly, and we offer him suggestions and offer him help.

We will do the same with Mr. Elmore, but the problem is, you have this little \$750,000 operation over here on the side and you have got a billion-dollar agency where nobody who can make anything else happen in that agency is willing to meet with us or willing to meet with this committee and follow through on implementing the law.

So the problem with the rest of the agency, with that proactive stuff, reminds me, Ms. Jones, when my dad was in Korea and we lived with my grandparents and we didn't have very much money. We used to have those old gas stoves with the painted ceramic thing that looked like a flame—

Mrs. JONES. I understand.

Mr. WEIDMAN. But if you didn't run any gas over it, there was no heat. So all I am saying is that SBA, despite the fact that 25



of those folks got bonuses to the tune of \$400,000 a year last year, those SES folks—you guys turn off the gas, and there ain't no fire down there.

Mrs. JONES. Mr. Elmore, I want to come back to you and this is not a personal attack; this is just encouragement.

I would appreciate—and maybe the better move is to ask my staffer to send a letter to Mr. Baretta detailing some of the things that we have talked about today to encourage that the agency and other departments make it a priority.

I always make the discussion, when they talk about minority and women's events, that it is a second thought versus when all the big planning is done, versus being at the table when everything else is being done; and then all of a sudden, by the way, we have got to get those veterans, by the way, we have got to get those women, by the way, we have got to get those other minorities.

Can that be part and parcel of the overall discussion, and accomplishments of the agency; and that other SBA procurement officers, or in other departments, that would be a goal they would have to reach in order to get the bonuses that are being considered by Mr. Weidman.

I guess I am out of time, Mr. Chairman.

Gentlemen, thank you for your testimony. We just did a small business conference with the Federal Reserve on Monday, but my next one, I am going to do veterans. So maybe I will have to call upon you.

General HENRY. I would like to——

Mrs. JONES. You would like to come?

General HENRY. I would.

Mrs. JONES. Oh, get that note, Patrice. Very good.

Mr. LOPEZ. We will all come.

Mrs. JONES. You will all come? Cleveland, Ohio. I promise, it will be warm by the time you get there.

Chairman DEMINT. Thank you. Thank you Ms. Tubbs-Jones.

Ms. Millender-McDonald.

Ms. MILLENDER-McDONALD. Thank you, Mr. Chairman, and again thank you for convening such an impressive panel today.

I have read part of your testimony, having to run out to put a bill on the floor and come back. I think what you said and what I am going to say is clear.

H.R. 3011, I think, the Small Business Emergency Relief Act that was introduced by Congressman Pascrell, and H.R. 1499, the American Small Business Emergency Relief and Recovery Act of 2001 that was introduced by Congresswoman Donna Christian-Christensen were pieces of legislation that we thought would move things. They have not, and so if we cannot identify the problem, then we need an inspector general to come in and look at this department and see just what is impeding the forward motion; and I am going to, as the ranking member, make that happen. I think it is time for us to do the due diligence for our veterans that is sorely needed.

And, Mr. Chairman, with that, thank you very much. I think you and I have a lot of work cut us out for us.

Chairman DEMINT. We do.

This is great information, and I think we have some very specific ideas to follow up on. I am going to dismiss this panel, and if the members who are still here can stay for one statement from an additional witness, that will be wonderful. We are running out of time, but I think we can still—

Ms. MILLENDER-MCDONALD. I am here for the long haul.

Chairman DEMINT. Thank you and thank all of our witnesses for coming forward.

Mr. Bew, we need to move ahead so we won't lose your statement, and there are very specific questions I think we have; and I apologize for the lack of members, but we have been pulled away. Believe me, you will be on the record and we will be responding to your comments.

But this is Mr. Ronald Bew, Associate Deputy Director for Capital Access for the U.S. Small Business Administration. And before we allow your testimony, I would like to allow Ms. Christian-Christensen to make an opening statement.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I am going to be very brief, but this is an issue that is of critical importance to my district, and it has been brought to our attention, to other districts as well.

When the disaster loans began, when the program began in 1998, my constituents came running to me. They were very concerned about their loans being sold. At that time, we were assured by SBA that the terms of the loan would not change; and with some hesitation, I think my constituents decided to accept and trust in that.

And in August of 2000 the loans were bought by Beal Bank of Texas, and this happened a little over a year after my community rejected an agreement that the governor made with the owner of Beal Bank to build a rocket company. So you can imagine the alarm in our community when we found out that over 3,000 loans were bought by Beal, with whom we had just had a bitter battle, and of those, 605 were business loans, about 2,500 were home loans. But 605 business loans in a small community like the U.S. Virgin islands is a lot, and we attempted to have SBA buy back the loans.

They looked into it and investigated how the bid was made and found that it was done fairly and equitably, and they didn't feel they had any recourse to do that. We have tried to have them put on hold. That has, to date, not happened, but we continue to get complaints from companies because the flexibility that we could have with the SBA does not pertain.

One issue is the subordination of the loans and the fact that Beal Bank just does not subordinate the loan. It has created problems with companies wishing to expand and that has happened in several instances.

So I know we are really strapped for time, but I want to stress the importance of this issue and I especially, in light of the fact of the new disaster loan program following September 11, where businesses across the country are now able to access these loans, but they are accessing them with the understanding that SBA is making these loans, that they are coming under certain terms, that there is some flexibility—not in terms of paying back the loans, but

in terms of working out issues with SBA when their circumstances change, in reaching equitable agreements that do not occur when you are working with a for-profit bank.

So with that, Mr. Chairman, I will yield.

Chairman DEMINT. Thank you very much.

Mr. Bew, we will turn to you for a 5-minute testimony

**STATEMENT OF RONALD E. BEW, ASSOCIATE DEPUTY ADMINISTRATOR FOR CAPITAL ACCESS, U.S. SMALL BUSINESS ADMINISTRATION**

Mr. BEW. Thank you, Mr. Chairman, ranking member, and members of the subcommittee for inviting me here today.

SBA's Asset Sales Program was initiated in fiscal year 1998. It is designed to sell loans by SBA to private sector investors, and is part of an effort to more efficiently manage the government's credit portfolios. Since the first of five sales in August of 1999, SBA has sold over 111,000 loans for over \$2.5 billion. SBA plans to continue to conduct the program with two to three asset sales per year.

Through the program, SBA has maximized sales proceeds of selling loans to the private sector at a value that exceeds the agency's expected hold value. The program helps future borrowers by freeing up scarce resources to be used for loan subsidy and frontline delivery of services. The purpose is to allow SBA to focus on inherently governmental functions, i.e., making the loans rather than servicing loans.

By selling these loans and freeing servicing staff to perform other functions, such as loan origination, lender monitoring and risk management, the program has provided SBA much-needed flexibility in an ever-tightening budget environment. In addition, the sale of assets has allowed the agency to continue providing essential loan servicing while maintaining capacity for future major disasters. This is in spite of staff loss through attrition in the servicing centers and field offices.

Bidders in these sales have included Wall Street investment banks, large national banks, regional banks, loan servicing companies and small investment companies. SBA has provided these bidders abundant, accurate and easily accessible loan information by remote access over the Internet at a nominal cost in order to expand the potential bidding community and maximize gross proceeds.

Doing so particularly assists small bidders who frequently do not have the resources to invest the time and expense in traveling to a central location to view the due diligence materials. SBA includes small businesses in its assets sales program management by using the services of small minority-owned and women-owned businesses to perform some of the work.

SBA will also continue to apply the lessons it learns from each individual sale, and it requires its contractors during each sale to note and record all policy and process improvements.

Another benefit of the program is that SBA has been able to reduce its outstanding loan portfolio. For a variety of reasons, many borrowers pay off their loans or enter into compromise agreements when SBA informs them that their loans have been selected for sale.

While undertaking the program, SBA has been able to protect borrowers both before and after sales. Disaster loans are held for at least 2 years and thereafter SBA gives special consideration before selling loans when another disaster occurs in the same area. Additionally, terms and conditions remain the same unless the borrower chooses to change them.

SBA has recently changed its borrower notification process to ensure that all borrowers with a loan scheduled for an asset sale are fully aware of the pending actions and their options. The written notice of the sale is sent to the borrower approximately 4 months before each scheduled sale and includes a series of frequently asked questions based on previous issues raised by borrowers, including questions regarding the types of servicing actions the sale process might affect.

SBA also frequently updates the field offices and servicing centers regarding the status of each sale so that these offices can work with any borrower who has a situation that requires special handling.

SBA has managed the program while successfully limiting customer complaints. Of the approximately 111,000 loans sold since the first asset sale, SBA has received less than 300 complaints. However, when SBA does receive a complaint, SBA acts upon its commitment to follow up on each complaint by contacting the loan purchaser and asking the purchaser to attempt to resolve the borrower's concerns.

Thank you for the opportunity to appear here. I will be happy to answer your questions.

[Mr. Bew's statement may be found in appendix.]

Chairman DEMINT. Thank you, Mr. Bew.

Ms. Christensen, would you like to ask a question?

Mrs. CHRISTENSEN. Thank you.

That notice time doesn't really help a community that has a very low income level. They are not able to buy out. You can give them a year's advanced notice, and they will not be able to buy the loans before you can sell them; and I guess that is when they come to complain to us.

When the loans are sold, do you give the purchaser any notice or guidelines if the loans are different or should not be viewed as a conventional loan, or is that how you look—

Mr. BEW. In 2001, we started putting notice in the loan agreement to make borrowers aware that their loans are subject to sale.

Mrs. CHRISTENSEN. For example, does Beal Bank get any kind of a notice or guidelines that this loan is different from their conventional loans and should be in keeping with the original terms that SBA provided at the time the loan was taken out?

Mr. BEW. Yes. Beal Bank is a 7(a) lender and knows the program very well. And we go through a bidders' qualification process.

Mrs. CHRISTENSEN. And we are talking about the disaster loans—I mean when a person loses their business and has no place else to turn but to SBA, and is continuing to make payments, sometimes struggling, because our economy is not good; and then it is being sold, they can't buy out the loan and the terms of the loan now change.

Mr. BEW. Beal, as any other purchaser, would have to adhere to the note. It cannot change unless the borrower requests a change, such as subordination, et cetera. They have to adhere to the terms of the note.

Mrs. CHRISTENSEN. Do I have time for more questions?

Chairman DEMINT. Go ahead.

Mrs. CHRISTENSEN. You had said that through the asset sales you are able to deploy staff that would otherwise be used for portfolio management. Would the bulk of loan execution for the 7(a) and 504 loan regulation be lending, monitoring and risk management, which are already done by the private sector? What other areas do you deploy those people to?

Mr. BEW. What has happened as the loans were sold and the loan volume and the servicing centers declined, attrition took hold, so it was able to equal—to have an equal balance of people and servicing.

What we have done since, I might add, is that there was an emphasis—and someone else, earlier, mentioned that—on small loans. What we are doing now is proposing increasing the SBA express loan, to increase that from 150 to 250, and open it up to many banks. Particular emphasis is on that program for the 50,000-and-under loan, to touch more small businesses in the smaller loans.

Mrs. CHRISTENSEN. I am—Mr. Chairman, I would like to submit some questions in writing and, if I could, ask one more question.

The mission of the Disaster Loan Program is to assist the borrower to return to predisaster conditions. Doesn't this conflict with the profit-driven mission of a financial institution, making it impossible to really service the loans?

Mr. BEW. We do give a 2-year waiting period before we sell a disaster loan. That recognizes that most changes occur in the first 2-year period after a loan is made. It allows these businesses to get back up on their feet.

Mrs. CHRISTENSEN. Unless you get hit with a hurricane the next year.

Mr. BEW. If it does, we can pull those loans out of that sale if there is a disaster in that same area.

Mrs. CHRISTENSEN. Within what period of time?

Mr. BEW. Two years.

Mrs. CHRISTENSEN. Not as long as the loan is in effect?

Mr. BEW. No. Because many disaster loans have maturities of 25 to 30 years.

Mrs. CHRISTENSEN. I would just like, through the Chair, to submit further questions in writing.

Chairman DEMINT. And I would like to suggest, if you can, if Mr. Bew is agreeable, to perhaps meet with the Congresswoman in her office to come up with specific suggestions that the committee can follow up on, whether it be legislation or regulatory, if that is possible. Because I know that is her particular interest.

Mr. BEW. I read some of your earlier correspondence. I hear you. I understand exactly where you are coming from. I would be happy to meet with you.

Chairman DEMINT. We would very much like to hear from that. Ms. Millender-McDonald.

Ms. MILLENDER-MCDONALD. Mr. Bew, what I would like to ask is, what are the specific procedures or criteria for the repurchase of loans, especially disaster loans you have put in place, if at all—any?

Mr. BEW. For the repurchase?

Ms. MILLENDER-MCDONALD. For the repurchase of loans, especially disaster loans.

Mr. BEW. Let's see. I am not sure that I can answer that.

Ms. MILLENDER-MCDONALD. I will tell you what. I will submit that question to you and perhaps you can research that, along with those questions that Ms. Christensen—

Mr. BEW. If you are talking about SBA repurchasing sold loans, we could repurchase them during the first 6 months after the sale—we could only do this, however, if there is something faulty in the documentation, something we warranted and it is not true. That is basically it, because once we have sold that loan, it belongs to private sector investors.

Ms. MILLENDER-MCDONALD. I do understand that.

Thank you, Mr. Chairman.

Chairman DEMINT. Thank you. And thank you, Mr. Bew. I appreciate your comments and look forward to some additional recommendations.

This meeting is adjourned.

[Whereupon, at 4:25 p.m., the subcommittee was adjourned.]

May 21, 2002

**OPENING STATEMENT**

**CHAIRMAN JIM DeMINT**

**SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT,  
AND GOVERNMENT PROGRAMS**

**COMMITTEE ON SMALL BUSINESS**

**Good morning and welcome to this hearing of the Committee on Small Business. A special welcome to those who have come some distance to participate and to attend this hearing.**

**The Small Business Administration is required by statute to provide special consideration to veterans in the administration of its programs. There have been various complaints, in the past, that SBA and other agencies were not addressing the needs of veterans, especially when it comes to starting, financing, and growing a small business.**

**The hearing will provide a forum to evaluate the performance of SBA and the National Veterans Business Development Corporation. The Corporation was created by Public Law 106-50, and is an example of how this Committee can work in a bipartisan effort to help veterans and small businesses in this Nation. I am happy to say that special emphasis is given in the law to providing entrepreneurial and procurement assistance to small businesses owned and controlled by service-disabled veterans.**

Also, this hearing will provide an opportunity to entertain comments concerning H.R. 3263, a bill introduced by Congressman Pascrell, a Member of this Committee.

The second panel will provide information concerning the sale of disaster loans commercially.

Basic to this hearing is remembering our veterans and the sacrifices that they have made for this Nation. Memorial Day is a day of remembrance. I can assure you that we in Congress will not forget you.

I look forward to a lively and informative discussion of the issues presented. Again, welcome to this hearing. I yield to the Ranking Member of this Subcommittee for her opening statement.



STATEMENT  
Of  
Rep. Juanita Millender-McDonald  
Ranking Member  
Subcommittee on Workforce, Empowerment, and Government  
Programs  
House Small Business Committee  
Hearing on Veterans and Disaster Assistance Programs  
May 22, 2002

Thank you Mr. Chairman,

Today the subcommittee meets in its oversight capacity to review two important programs and their effect on our nation's entrepreneurs.

Memorial Day is a time when we, as a nation, take a break from our routine to remember, honor, and thank those who have made the ultimate sacrifice for the freedom we enjoy. Therefore, it is fitting that we review the programs that work on behalf of our veterans who have taken the next step toward the American dream of starting a small business.

Today more than 5.5 million veterans are small business owners. These men and women are facing new challenge – their new battlefield is the American economy. To assist these entrepreneurs, our Committee passed the Veterans Entrepreneurship and Small Business Development Act of 1999. This Act created the National Veterans Business Development Corporation to improve veteran's access to financial and technical assistance. This program is also meant to give special assistance to service-disabled veterans. While it holds great promise in aiding a whole new class of entrepreneurs, its full potential has yet to be realized.

The other program that we will review today is the disaster loan program. While SBA has many successful programs, the disaster loan program is the pinnacle. The last thing going through anyone's mind in the wake of a disaster should be "how will I ever rebuild?" This program makes rebuilding a reality. Through the

disaster loan program, small businesses, homeowners, and nonprofits can receive low-cost loans, enabling them to rebuild and restart their lives.

Rebuilding from the tragic events of September 11th would have been impossible without the assistance of the disaster loan program. SBA had people on the ground in New York and Virginia helping small businesses to start over as the fires still burned, allowing America to begin the healing process. On October 22nd, the Administration took the extraordinary step to open the EIDL program nationwide, ensuring recovery of those small businesses in the travel, air and tourism industry affected by the events. We should commend the Administration and, more importantly, the SBA employees for their tireless work.

In today's hearing, we will look at what happens to those small businesses once they receive a SBA disaster loan. Assessing the small business recovery process to ensure their continued

success is as important as the distribution of the loan in the first place. There needs to be flexibility in these companies meeting the conditions of the loan.

By way of background, problems began in the late 1990's when SBA started selling loans to private agencies. Once the loan moved from SBA to the private sector, the level of small business assistance decreased drastically, removing all flexibility. Often these private sector institutions engaged in an overly aggressive practice of the collection of these loans—sometimes to the point of harassment.

While it is clear that these companies should repay their loans in a timely manner, it is questionable if receiving the money on time for the lender is worth the bankruptcy and harassment these small businesses experienced. It was this concern that led Democrats on this Committee to introduce H.R. 3011, the Small Business Emergency Relief Act that, in addition to providing greater

flexibility in the disaster loan program, would also prohibit the sale of these loans.

This issue was raised during our mark-up of H.R. 1499, the American Small Business Emergency Relief and Recovery Act of 2001, when an amendment prohibiting the resale of these loans was offered. Today's hearing will explore this policy and look for ways to ensure small businesses will not face a second round of devastation after a disaster at the hands of creditors.

Mr. Chairman I want to thank you for holding today's hearing, and allowing us to investigate these very critical and timely issues facing our nation's small businesses. I want to thank the witnesses for testifying today and look forward to hearing your testimony.

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STATEMENT OF

WILLIAM ELMORE

ASSOCIATE ADMINISTRATOR  
VETERANS BUSINESS DEVELOPMENT

SBA's PROGRAMS FOR HELPING VETERANS

BEFORE THE

SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT AND  
GOVERNMENT PROGRAMS

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 21, 2002

Chairman DeMint, Ranking Member Millender-McDonald and Members of the Subcommittee, I am William Elmore, Associate Administrator for Veterans Business Development at the U.S. Small Business Administration (SBA). On behalf of Administrator Barreto, I thank you for this opportunity to discuss SBA's accomplishments and commitment to better serving our nation's Veterans.

It is a humbling honor for me to be here today, just six days before our nation celebrates Memorial Day, to honor the more than 41 million Americans who have served the cause of our freedom and the more than one million who have died in that service.

It is fitting today that we meet to discuss SBA's support for our veterans. It was in 1866, that Henry Welles, a small business owner in Waterloo, New York suggested that all the Shops in town close for one day to honor the soldiers who were buried in the Waterloo Cemetery. 100 years later, Congress and President Lyndon Johnson declared Waterloo, N.Y., as the "birthplace" of Memorial Day.

Since its creation in 1953, the SBA has provided financial, technical and management assistance to veteran small entrepreneurs, including those who are service-disabled. Today's hearing provides me the opportunity to demonstrate SBA's continued enhancement of its mission to help America's veterans start, run and grow their businesses.

I can assure you that we are committed to improving veterans access to all of our programs. SBA seeks to reach out and serve all of America's 25 million small businesses, including those owned by veterans. Though veterans are eligible and do use all of SBA's variety of finance, technical assistance and contracting programs, the Administration wants to ensure that veteran participation in SBA's programs increases each year. In an effort to better serve our customers, including veterans, we have been reviewing the effectiveness and, when needed, modifying all of our programs in an effort to make sure they keep pace with market trends, remain relevant and meet our customers' needs. There are many aspects to this much needed effort, including restructuring and modernizing the Agency's delivery system to best serve clients in the 21<sup>st</sup> Century.

We have included increasing emphasis on better outreach and delivery of services to veteran-owned businesses as part of the review of and changes to SBA programs. Administrator Barreto has put his full support behind our efforts in the Office of Veterans Business Development (OVBD) to reach out to more veterans. I started these efforts by personally visiting with each program manager in the Agency to discuss ways in which their particular programs could increase veteran participation and better serve the veterans who do use their programs.

As part of our outreach efforts, we have provided training to and enhanced the responsibilities of the Veterans Business Development Officers stationed at each SBA District Office. These are the people on our front line, who personally meet with veterans seeking business assistance and provide referrals to our resource partners. Additionally,



SBA designated a full-time veteran's coordinator in our Office of Government Contracting and enhanced that office's web page to better assist veterans with procurement.

The SBA has also fully participated in the strategic planning and implementation of the National Veterans Business Development Corporation's activities and initiatives. The Administrator serves as an ex-officio Member of the Board.

We have also taken aggressive steps to partner with other Federal agencies to increase resources available to veteran entrepreneurs. This past year, we asked the Departments of Veterans Affairs and Labor to participate in our National Conference for Veterans Business Development Officers, and in turn, DOL has asked us to make a presentation on SBA's Veterans Programs at their National Conference. We have also entered into discussions with both DVA and DOL to explore efforts to coordinate small business assistance for service-disabled veterans participating in DVA Vocational Rehabilitation and to enhance outreach and training for DOL field staff regarding entrepreneurship opportunities for veterans.

SBA has recently unveiled the new National SBA Special Veterans Outreach Poster that will be provided to 10,000 veteran-serving locations around the nation. These locations include SBA resource partners, other Federal agencies, Congressionally chartered Veterans Service Organizations, state and local Veterans Affairs Offices, and veteran businesses and advocates. SBA has also developed a comprehensive SBA Veterans

Resource Guide that provides information tailored to veterans that chronicles all of SBA's programs. This Guide is being made available to those same 10,000 locations.

As part of our increased outreach, I made presentations in FY 2001 at 19 national and local events and conferences. In addition, during this past year, SBA contacted more than 100,000 veteran and service-disabled veteran small business owners and encouraged their participation in Federal procurement. SBA also developed the *VetGazette*, a quarterly electronic newsletter disseminated to 40,000 veteran small businesses and to Federal agency staff involved in entrepreneurial assistance to veterans.

In FY 2002, SBA renewed our cooperative agreements for our Veterans Business Outreach Program centers. We are pleased that the number of veterans served by this program doubled in FY 2001. Also, in FY 2001, SBA conducted special veteran and service-disabled veteran outreach events through seven SBA District Offices. In FY 2002, SBA is increasing this number to a minimum of 17 District Offices.

On August 24, 2001, SBA implemented the Military Reservists Economic Injury Disaster Loan (MREIDLs) program and has thus far approved 28 MREIDLs for \$2,559,000. SBA conducted extensive outreach for this program, distributing press releases to print and electronic media outlets throughout the country. In addition, SBA e-mailed a MREIDL fact sheet to approximately 23,000 veteran-owned small businesses, to Task Force For Veterans Entrepreneurship members and to SBA's District Office Veterans Business Development Officers. SBA also engaged in significant outreach and publicity

through the Department of Defense to ensure that Reservists and National Guard members were informed of this program.

SBA's Office of Government Contracting included veterans' procurement information in approximately 400 procurement conferences in FY2001. Every agency, including SBA, has been given a statutory three percent service-disabled veteran Federal procurement goal for FY 2002. To help SBA meet this goal, training was provided to all SBA Government Contracting staff. Additionally, Government Contracting Area Directors have been tasked to develop on-going programs to emphasize, publicize and promote the three percent goal for service-disabled veterans.

In 2001 veterans used the Microloan, 7(a), 504, and Defense Loan and Technical Assistance (DELTA) loan programs in significant numbers. Approximately 11 percent of all SBA loans, for a total of nearly \$1.2 billion, were made to veteran-owned small businesses; nine percent of all Microloans, totaling over \$3 million, were made to veteran-owned small businesses; and 15 financings totaling \$800,000 from Small Business Investment Companies (SBICs) went to veteran-owned small businesses.

In FY 2001, the number of veterans receiving services from the SBA increased, turning around a decrease in the number of veterans SBA assisted annually that began in the mid 1990s. This increase in services provided by SBA to veterans includes specific increases in the number of veterans receiving counseling and training from Service Core of Retired Executives, the Small Business Development Centers program, the Women's

Business Centers program and the Veterans Business Outreach Program. However, as it is not enough to count the number of loans and persons receiving SBA services, SBA will also be measuring the results of the training and counseling. Specifically, we will assess the economic benefits to the veterans community such as increased revenue and job creation.

Though SBA has significantly improved its outreach and service to veterans, the Agency recognizes that more can be done. We intend to continue to enhance our outreach efforts, especially to those who are service-disabled, and will continue to fine-tune our various programs to ensure that veterans receive the special and full consideration that they have earned.

Before I conclude today, I would like to report some important information to you about the Advisory Committee on Veterans Business Affairs. After reviewing the backgrounds of over 50 highly qualified candidates, the Administrator, within a week, will announce the appointment of six members to the Advisory Committee on Veterans Business Affairs. We are excited about these appointments and look forward to working with them and receiving their recommendations on how we can continue to improve our work within the veterans community.

This concludes my testimony. Once again, thank you for this opportunity to discuss SBA's business development program for veterans. I am pleased to answer any questions you may have.



STATEMENT OF MR FRANK SOARES  
CHAIRMAN OF THE BOARD  
THE NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION  
("THE VETERANS CORPORATION")

BEFORE THE  
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT, AND GOVERNMENT  
PROGRAMS OF THE COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES  
21 MAY, 2002

Mr. Chairman and Distinguished Members of the Subcommittee:

It is a pleasure to speak before you this afternoon about our progress in serving Service Disabled Veterans and Veterans through The Veterans Corporation. I was privileged to receive one of the initial presidential appointments to our Board of Directors in October 2000. For the past year I have served as its Chairman. Although the Public Law 106-50 was passed in August of 1999, I think it's more accurate to date the Corporation's progress from the date it received its initial funding in 2001. Once a temporary staff was hired, we began an extensive search for the strong leadership necessary to meet and exceed the law's mandates to expand and improve access to technical assistance regarding entrepreneurship for the Nation's Veterans and to assist Veterans, including Service Disabled Veterans, with the formation and expansion of small business concerns by working with existing organizations. With

that as our mission statement, we conducted a nation-wide search, identifying six, high quality, top government and military leaders that had the experience, skills and abilities to make The Veterans Corporation successful. We carefully considered each candidate and selected Major General Chuck Henry. He is absolutely the right choice to ensure the Corporation's success. His distinguished service to our Nation combined with his shrewd business sense and strong leadership will give our Veterans a real champion that they so richly deserve.

His efforts during the short period he has served as the Corporation's CEO and President have been remarkable for the significant progress he's made in creating a viable business operation devoted to accomplishing the mission that you have given us.

To achieve our mission, the Board of Directors and I have created both a Vision, and Goals for the Corporation. Our vision is that the Veterans Corporation will be the premier organization in the world assisting America's Veterans, including Service-Disabled Veterans, in creating and expanding their entrepreneurial endeavors and Veteran-owned small business enterprises by providing access to knowledge, tools and resources necessary for success.

We have numerous goals, which I won't recite here but have included in my written testimony.

One of our goals is to establish and oversee the Professional Certification Advisory Board (PCAB), which is provided for in Public Law 106-50. The Board is intended to create uniform guidelines and standards for the professional certification of members of the Armed Forces. This will aid in their efficient and orderly transition to civilian occupations and professions and remove potential barriers in the areas of licensure and certification.

This is an extremely difficult area that involves a complex web of certification standards and barriers that are nationwide; at the Federal, State, and local levels. At each level there are a multitude of organizations and interest groups involved in testing, licensing and certifying a vast array of civilian positions from welders to medical technicians.

Seventy percent of the Army's enlisted military occupational specialties have civilian job equivalents that are subject to licensure or certification. I'm sure the other Services have similar statistics. So, you can quickly see the challenges the Board faces in researching, identifying, and most importantly creating and attempting to implement nationwide standards that allow our service members to transition their skills smoothly into a level obtained by their civilian counterparts. We will make a concerted effort to raise the necessary monies to accomplish this important endeavor through fund raising. The President of the United States appointed our Board of Directors. They were selected on the basis of their personal achievements and for the knowledge and expertise they can provide our organization and our partners. All of our board members are also Veterans. General Henry will detail the bold initiatives he has taken with the creation of several strategic business units to generate both

services for Veterans and revenues for the Corporation. These business units are just the beginning of many more complex business arrangements to support our Veterans. I strongly suggest that future nominations to the board be individuals who have a solid background in veteran service organizations and /or considerable, strong business experience that can help guide the corporation during this dynamic and difficult period of growth to fiscal independence.

I thank you for the opportunity to speak before you today and I personally wish to thank the sub-committee members and their staffs who were instrumental in the creation and successful passage of this legislation into a law to help veterans establish and expand small businesses. It's good for the Nation and well-deserved assistance for our Veterans. Thank you.



## THE VETERANS CORPORATION'S GOALS

- A. Become the premier advocate for Veterans, including Service-Disabled Veterans, in creating and expanding their entrepreneurial endeavors and their Veteran-owned, small business enterprises and in providing the President and the Congress an Annual Report on the Corporation's activities and accomplishments and on the efforts of Federal, State, and private organizations to assist Veterans in the formation and expansion of small business concerns.
- B. Develop and implement a plan to raise private funds, to meet congressionally-mandated yearly matching fund requirements during FY 2001-2004, and to become a financially, self-sustaining corporation by FY 2005.
- C. Establish key strategic business partnerships with private sector organizations to support and enhance TVC programs.
- D. Establish effective strategic working relationships by with all components of Federal, State, and local governments that have responsibilities to assist Veterans in the formation and expansion of small business concerns.
- E. Establish effective alliances with all Veteran Service Organizations to gain their support and commitment for TVC's programs, and to obtain their assistance in the successful implementation of these programs.
- F. Develop and implement TVC programs which provide Veterans access to knowledge, tools and resources necessary to succeed in their entrepreneurial efforts and Veteran-owned small businesses.
- G. Establish strategic venues for effective business networking and knowledge sharing opportunities for Veterans and Veteran-owned small businesses.

- H. Establish and maintain a network of information and assistance centers for use by Veterans and the public, emphasizing and leveraging information technologies and the Internet.
- I. Develop and implement by a dynamic, positive communications program and public relations plan directed toward government agencies at all levels, private sector organizations, Veteran Service Organizations, Veterans, and Veteran-owned small businesses to highlight TVC's mission, goals and programs.
- J. Establish and oversee a Professional Certification Advisory Board in accordance with Public Law 106-50 to create uniform guidelines and standards for the professional certification of members of the Armed Forces to aid in their efficient and orderly transition to civilian occupations and professions and to remove potential barriers in the areas of licensure and certification.
- K. Develop and implement a comprehensive plan, in cooperation with the Advisory Committee on Veterans Affairs, for joint public-private sector efforts to facilitate growth and development of small business concerns owned and controlled by Veterans.
- L. Assume the duties, responsibilities and authority of the Advisory Committee on Veterans Affairs on October 1, 2004.
- M. Administer the affairs of The Veterans Corporation through the Board of Directors, fairly and impartially and without discrimination in accordance with Public Law 106-50 as a federally chartered corporation incorporated under the laws of the District of Columbia, and disburse TVC funds in accordance with the purposes of NVBDC and approved by the Board of Directors.



STATEMENT OF MAJOR GENERAL CHARLES R. HENRY (RET.)  
PRESIDENT AND CEO  
THE NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION  
("THE VETERANS CORPORATION")

BEFORE THE

SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT, AND GOVERNMENT  
PROGRAMS OF THE COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES  
21 MAY, 2002

Mr. Chairman and Distinguished Members of the Subcommittee:

Thank you for your invitation to testify today. This is my first appearance before your subcommittee and I am honored to have this opportunity. I'm also proud to tell you what we've accomplished in the 200 days since I took charge of this outstanding congressional initiative "The National Veterans Business Development Corporation," or as we call it "The Veterans Corporation."

Although the legislation that created The Veterans Corporation was enacted in August 1999, initial funding was not received until March of last year. Subsequently a search began for a permanent President and CEO that culminated with my selection in October 2001.

Since then, we have launched several high-impact initiatives to fulfill the legislative mandates of the law. In this 200 days, we have met the requirement for \$2 million dollars in matching funds for Fiscal Year 2002, established four strategic business units and launched a world-class website and begun work on a state of the art electronic Veteran Marketplace. We will provide Veterans access to training, access to markets and access to capital, all critical elements in helping Veterans and Service Disabled Veterans succeed in business. This solid foundation of programs will not only help Veterans but will also help meet your mandate to make this Corporation self-sufficient and assure its survival beyond the start-up funding provided in P.L 106-50.

One of our first requirements is to build our affinity group from the approximately 24 million Veterans and estimated 4 million Veteran business owners in this country. We are launching a multimedia awareness campaign to reach Veterans incorporating our web site and through traditional print and broadcast media and direct marketing. Over our first three years, our objective is to enlist more than 40,000 Veteran business owners and prospective business owners as our partners in this endeavor. We are, and will continue to actively market this affinity group to both the public and private sectors, providing revenue opportunities for Veterans and Service Disabled Veterans businessmen and women, and revenue for The Veterans Corporation.

As we reach out to Veterans we are also working to create a new "brand awareness" about Veteran businesspeople. We are highlighting the advanced leadership and management skills members of the military develop while on active duty, along with top quality technical training that makes our service members the world's preeminent fighting force.

The law requires that we achieve five goals:

1. **Increase business opportunities for Veterans and Service-Disabled Veterans.**
2. **Raise matching funds.**
3. **Develop information centers.**
4. **Privatize**
5. **Create certification standards**

I'll briefly discuss each of these legislative mandates, our objectives and our progress, to date.

**1. Increasing business opportunities for Veterans and service disabled Veterans** This is a primary focus of the Strategic Business Units (SBUs) we have created. The Education and Training SBU is partnering with the Ewing Marion Kauffman Foundation, Kansas City, Kansas to make research and writings on what makes a successful entrepreneur available to Veteran and Service Disabled Veterans.

The Kauffman Foundation has permitted us to private label what is arguably the best entrepreneurial library on or off the Web ([www.entreworld.org/Veterans](http://www.entreworld.org/Veterans)). They will allow us to provide this material directly to Veterans from our website. In addition, we are currently designing a unique entrepreneurial training program for Veterans and Service Disabled Veterans anchored by several Kauffman products as well as strategic alliances with major computer and Internet provider corporations to provide Veterans with the tools they need for success in today's marketplace. The program will be offered

to transitioning military personnel and Veterans at a very reasonable cost with our Fund Raising SBU raising the capital required to subsidize the program.

Access to capital is perhaps the single biggest roadblock for anyone wishing to start or expand a business. Our Business Development and Outreach SBU is working two initiatives to help Veterans get the funding required for success.

The first is the Veterans Venture Capital Fund. We have entered into a strategic partnership with an experienced venture capital management company, Equisource, Houston, Texas for the purpose of creating the Veterans Venture Capital Fund. The Fund will be established with capital raised from private corporations and pension plans. An application for Small Business Investment Company status is being prepared and will be submitted to the U.S. Small Business Administration (SBA), shortly. If approved, SBA will provide a two for one match of all private funds. Our objective is to raise up to \$55 million in the private sector; if successful, the SBA match will create a \$110 million investment fund. Once established and capitalized, the Fund will invest in mezzanine-level opportunities with Veteran owned businesses and businesses that support Veterans and Veteran owned businesses

We are also working to create a national network of banks for a joint marketing effort to identify qualified Veterans and Service Disabled Veterans seeking commercial loans of \$50,000 or less, what we refer to as our micro loan program. The first bank to team with us is Southern Financial Bank, licensed to do business in Maryland, Virginia, West Virginia and Washington, D.C. We are actively seeking additional banking partners to expand the reach of this program to all credit-worthy Veterans. We expect to

be in a minimum of ten states by the end of this fiscal year, and nation-wide by the end of the next year.

The Veterans Marketplace is a result of a strategic partnership between our IT & E-Commerce SBU and eScout, a Kansas City-based provider of international electronic marketplaces. A beta version of the Marketplace is currently accessible from our website. This version is being upgraded, and we expect the full commercial version to be ready this summer. This internet-based market will allow qualified Veteran and Service Disabled Veteran owned businesses to offer their goods and services to other Veterans, Government agencies and Corporate America. Veteran and Service Disabled Veteran owned businesses will be clearly identified on the Marketplace, eliminating the age-old excuse "I would buy from Veterans or Disabled Veterans, if I could find them".

The Business Development and Outreach SBU is also close to finalizing an Affinity Insurance and Financial Services arrangement where Veteran and Service Disabled Veteran owned businesses will be able to purchase business insurance and financial products at reduced rates, with better terms or conditions, or both. We will achieve this by combining the purchasing power of the Veterans who register with us, and through an internationally recognized broker who will negotiate group rates for our membership. This program will start out modestly, but will grow quickly as our membership grows and as their needs become apparent. Our thinking is that if AARP can market an affinity group made up of people over 50, The Veterans Corporation should be able to market an affinity group of Veteran business owners to corporate America in a way that benefits both them, and us.

**2. Raise matching funds**

We are looking to corporate and individual donations as key sources of revenue until our other long-range initiatives mature and become profitable enough to sustain our operations.

Fund Raising – We have engaged and empowered a professional development team to lead a multi-year, multi-dimensional effort to raise funds. We have recently sent our first mailings for personal and corporate contributions and are making corporate visits to Fortune 500 firms and potentially large donors asking for them to help us support Veteran entrepreneurs through our MarketPlace. The focus of initial fund raising efforts is to raise money to help build infrastructure (e.g. our website and the Veterans Marketplace), and for the entrepreneurial training effort. While predicting the amounts that will be raised is a tenuous exercise at best, I think that we can raise \$2 million or more in cash contributions by September 30, 2002.

In-Kind Contributions The Corporation has already received in-kind contributions in the form of extensive legal services from the law firm of Fried, Frank, Harris, Shriver and Jacobsen Washington, D.C. and technology services, educational products and services in valued excess of \$1.5 million from the Kauffman Foundation and eScout. Combined cash and in-kind contributions should exceed \$3.5 million during this fiscal year. Growth in both in-kind and cash contributions is expected in fiscal 2003, and we are confident that we will, more than satisfy the matching funds requirements of P.L. 106-50.

**3. Develop information centers**



Our ability to electronically reach veterans is the first step to providing them with needed support where they live and work. We are also carefully evaluating several other initiatives that can provide on-site training and assistance but are not yet committed to any single approach. We have met with groups representing New England and Texas for preliminary discussions on the possibility of opening local centers for the delivery of products and services. We also plan discussions with SBA and the Department of Defense (DOD) representatives about strategic partnerships with Small Business Development Centers (SBDCs) and Procurement Technical Advisory Centers (PTACs). This will be a major focus of ours in fiscal year 2003.

#### **4. Privatization**

As provided by current law, our federal funding for fiscal years 2003 and 2004 will be half what it was in our first two years, and will cease altogether after 2004. Neither Congress nor our management team intends The Veterans Corporation to be a three and half year effort. Therefore, we are working to ensure that the businesses we are building, along with on-going fund raising efforts, will provide sufficient revenue to fund the continued growth and success of the Corporation.

Of the efforts begun to date, the Marketplace and the Affinity Marketing program have the potential to keep us growing in 2003 and 2004. Each transaction executed across the Marketplace results in a commission being paid by the seller to the Marketplace. We will share in nearly half those commissions. The Affinity Marketing program also generates revenues for the broker, paid by the companies the broker places insurance and other contracts with. The Veterans Corporation will share in that revenue. We believe these programs will produce sufficient revenues in fiscal 2003 to make up for

the reduction in federal funding. We have worked hard to keep our fixed costs down. Our budgets for next year provide for spending at less than \$200,000 per month. So the revenues raised from these programs alone can fund growth and expansion, including the costs needed to create the information centers discussed above.

In the long run, revenues from the Veterans Venture Capital Fund and our banking partnerships will help build a capital base that will provide a sound financial cushion and fund further growth in the years after federal funding disappears. I am confident that with the initiatives we've taken to date and those yet to come we will be able to generate the revenues necessary to meet the congressional mandate of privatization.

#### **5. Create Certification Standards**

The Professional Certification Advisory Board (PCAB) under the able chairmanship of Brigadier General Robert Cocroft, U.S. Army Reserve, is developing a strategic plan to work with the Department of Defense, Department of Labor and Veterans Affairs, as well as, with state, local and union officials to remove certification and licensure barriers that hinder service members from smoothly transferring their knowledge and skills to civilian sector employment. This is a highly complex area. Initiatives like the U.S. Army's recent launch of a Credentialing Opportunities On-Line [www.armyeducation.army.mil/COOL](http://www.armyeducation.army.mil/COOL) show that real progress can be made in simplifying the certification and licensure requirements for our transitioning service members.

**On the Small Business Administration Veteran Program**

We have a strong working relationship with Mr. Bill Elmore, the Associate Administrator and his staff in the Office of Veterans Business Development at SBA and with Mr. Scott Denniston, Director, Office of Small and Disadvantaged Business Utilization and his staff in the Center for Veterans Enterprise at the Department of Veterans Affairs. We're confident that these relationships will ultimately promote the best balance of public/private service to our Veterans. We are pleased with the increases in staffing at the Center and at SBA's Office of Veteran Business Development and urge that the membership of the Advisory Committee on Veterans Business Affairs be selected quickly, as required by SEC. 203 of PL 106-50.

We recognize that the Federal Agencies have not met the 3% goal for Service Disabled Veterans and the 3% goal for Veterans required by PL 106-50 but strongly believe that the Veterans Marketplace ([www.Veteranscorp.org](http://www.Veteranscorp.org)) can assist Government agencies and Corporate America in quickly identifying reputable businesses that are owned by Service Disabled-Veterans, Veterans and other diversity groups who will provide them excellent products, fast and at highly competitive prices. I am personally committed to working with senior federal procurement officials to help them succeed in reaching and surpassing these important goals.

**Conclusion**

We are proud of our efforts and grateful for this opportunity to serve Service-Disabled Veteran and Veteran entrepreneurs while improving our Nation's economic

well being. We believe that by assisting Veterans in starting and expanding businesses we will also go a long way toward reducing Veteran unemployment and solving the underemployment problem of the Veteran community. Again, thank you, Mr. Chairman, for inviting us to testify before your subcommittee.

**Testimony Provided By Wayne M. Gatewood, Jr., MSgt, USMC (Ret)  
President/CEO, Quality Support, Inc.  
before the Congressional Subcommittee on Workforce, Empowerment, and  
Government Programs on Small Business  
May 21, 2002**

My name is Wayne M. Gatewood, Jr. I am a retired United States Marine Master Sergeant who served 21 years of active duty to include 13 months in the Republic of Vietnam. I receive 20% service connected disability from the U. S. Veterans Administration.

For the past 12 years, I have owned and operated Quality Support, Inc., a small business that just recently graduated from the U.S. Small Business Administration's Section 8(a) Program. Starting in my home in 1989 with \$600.00, and no access to capital, lending or banking institutions, Quality Support has since grown into a 96-person firm that has a proven track record of successful performance.

It was largely because of the 8(a) Program that Quality Support was given opportunities to develop as a successful Firm and become competitive in the business environment. I thank the SBA for the opportunity to have been a member of the 8(a) Business Development Program, and I ask Congress to look for ways to strengthen this Program and not discard it.

I have always believed Veterans hold a special place in American society, and I was very pleased to see the signing of Public Law 106-50, Veterans Entrepreneurship and Small Business Development Act of 1999. Among other findings, the Act states that "The United States must provide additional assistance and support to veterans to better equip them to form and expand small business enterprises, thereby enabling them to realize the American dream that they fought to protect." So, without a doubt, PL 106-50 provides a mandate very welcomed by U.S. Armed Services Veterans such as myself. Unfortunately, I do not believe much progress has been made since the signing of this Law:

Item: The National Veteran's Business Development Corporation (Corporation) has yet to compile a concise database of Veteran and Disabled-Veteran owned businesses. Such a listing is essential if the SBA and the Corporation are going to effectively exercise the mandate contained in 106-50. If the SBA and Corporation do not know who we are, where we are, and what we do in the market place, there is little chance of Veteran-Owned firms receiving assistance and guidance or heightened exposure to the private sector. As I understand, the Corporation is just now proceeding in this direction and I am hoping that they complete this important action at the soonest possible time .

Item: I have seen little if any evidence of interaction between the Corporation and the average Veteran and Disabled Veteran-Owned Firm such as my own. I have been in business for 12 years right here in the Washington, DC area, and since the signing of PL 106-50, my Firm has yet to be invited to any type of Corporation gathering. Nor have I received mailings that outline progress made by the Corporation and/or discuss current services and or opportunities available to my Firm. Although the a Corporation has a website, I do not see this website as currently pro-active in nature.

Item: Section 203, of PL 106-50 requires an Advisory Committee On Veterans Business Affairs “be established not later than 90 days after the date of the enactment of” the Act. The duties of the Committee in relation to the Corporation’s responsibilities are as follows:

1. Review, coordinate, and monitor plans and programs developed in the public and private sectors, that affect the ability of small business concerns owned and controlled by veterans to obtain capital and credit and to access markets.
2. Promote the collection of business information and survey data as they relate to veterans and small business concerns owned and controlled by veterans.
3. Monitor and promote plans, programs, and operations of departments and agencies of the United States that may contribute to the formation and growth of small business concerns owned and controlled by veterans.
4. Develop and promote initiatives, policies, programs, and plans designed to foster small business concerns owned and controlled by veterans.
5. In cooperation with the National Veterans Business Development Corporation, develop a comprehensive plan, to be updated annually, for joint public-private sector efforts to facilitate growth and development of small business concerns owned and controlled by veterans.

It has been two and a half years since the signing of the Act, and this Advisory Committee has yet to be established. Further, since no Committee exists, the Annual Committee Reporting Requirements to Congress and the President have gone unattended.

Item: Under the Law, (Section 502), it is written, “The Government-wide goal for participation by small business concerns owned and controlled by service-disabled veterans shall be established at not less than 3 percent of the total value of all prime contract and subcontract awards for each fiscal year.” Again, I have seen little if any progress in this area, and there are few, if any Government agencies that actively and effectively monitor and/or promote actions to make this 3% goal a reality. Until such time as Federal Government procurement activities and officials require Prime Contractors to actually identify designated and qualified Service Disabled Veteran-Owned Firms in their Proposal submissions, little if any progress in this area will be experienced. It is absolutely necessary that Federal Government Agencies be held to this mandate, as the resultant contract dollars available under this clause are of immense importance to eligible and qualified Service Disabled-Owned Firms.

At this time, I respectfully make the following recommendations regarding the operation of the National Veteran's Business Development Corporation and SBA's responsibilities under PL 106-50.

1. Immediately approve and establish the Advisory Committee On Veterans Business Affairs as required by Law.
2. Ensure the inclusion of all veteran-owned and service disabled veteran-owned Firms in a consolidated, comprehensive, and current database to be used by the Corporation, the Committee, and other Agencies, to facilitate positive results consistent with the spirit and intent of PL 106.50.
3. The Corporation should identify Prime contractors that participate in the Federal Government procurement arena who are seeking to identify Veteran and Disabled Veteran-Owned Firms to do business with; a database listing of these Firms should be made available to all Veteran owned businesses.
4. Make an immediate assessment of the policies and procedures now in place at applicable Federal Government Agencies and offices and ensure processes are in-place to assure the 3% subcontracting procurement Goal becomes a reality. Further, action should be taken to ensure Federal Government Agencies hold all prime contractors responsible for including subcontracting plans in their proposal submissions that identify designated service disabled veteran-owned firms, and the business mix that will result in a 3% subcontracting participation should they (the Prime), be awarded a particular contract.
5. Subsequent to any contract award, there needs to be a process by which the Corporation and the Advisory Committee can assess and monitor the progress made by Federal Government agencies and their Prime Contractors in the subcontracting area. Prime contractors that fail to make their goals should be precluded from participating in further Federal Government procurements until such a time as they have rectified their deficiencies.
6. Take action to bring veteran owned firms together with national Prime Contractors so that these groups can discuss potential contracting opportunities and work together to embrace the mandate of 106-50.
7. The Corporation should host gatherings between Veteran-Owned Firms and Federal Government procurement officials in order to facilitate dialogue between these two parties and hopefully foster positive results consistent with the spirit and intent of 106-50.

8. The SBA, Corporation, and Advisory Committee, need to work closely with the Department of Veterans Affairs and other agencies that support the Veteran community to ensure they are all working for the same goals under agreed upon procedures. Within the past two years, I have personally witnessed instances when certain agencies openly differ in their respective assessments of each other's roles under 106-50. Needless to say, such "turf battles" are destructive in nature, and do nothing to help the American Military Veteran.
9. Finally, it is essential that the Federal Acquisition Regulations (FAR), and similar federal government regulations, be re-visited, and new or revised policies enacted that authorize "set aside" procurement opportunities for Veteran and Service Disabled-Veteran-Owned Firms. Currently, Federal Law precludes contracting officers and authorities from offering Veterans and Disabled Veteran-Owned Firms with the same set-aside advantages offered Socio-Economic Groups, HUB Zone Businesses, and to some degree, woman-owned businesses. Unless the Federal Acquisition Regulations are modified to include a degree of set-aside authority for Veteran and Service Disabled Veteran-Owned Firms, it will be extremely difficult, if not impossible for our Federal Government contracting officials to reach specified goals.

In closing, I would like to say that Public Law 106-50 can only be effective when it is taken seriously by all concerned. Laws without clear accountability do very little to motivate people into action and to achieving desired results. If the Corporation and SBA do not exercise the complete authority contained in 106-50, to include on-going reporting to Congress, I see no benefit in such a Law. Results need to be continually assessed and measured, and people in positions of authority and applicable Federal Government agencies need to be held accountable. If things are not getting done, then let's make the necessary changes to get them done.

Thank You,

Wayne M. Gatewood, Jr.



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Testimony  
of

**John K. Lopez**

**Chairman, Association for Service Disabled Veterans, and  
Co-Chairman, Task Force for Veterans Entrepreneurship**

To

**Jim DeMint**

**Chairman**

**Subcommittee on Workforce,  
Empowerment, and Government Programs**

**Tuesday, May 21, 2002; 2:00 p.m.  
Room 2360, Rayburn House Office Building**

**WRITTEN TESTIMONY**

Of all the provisions of PL 106-50 established by the U.S. Congress; the Amendments of Title V. are the most significant.

Title V. —Procurement Assistance, provides the service disabled and prisoner of war veteran business person (SDV), the assistance needed to enable his rehabilitation by providing the SDV with the evidence of stable financing potential and a subsequent basis for generating additional development and capital.

Procurement participation permits the SDV to demonstrate competency and management which assures financial support and investment.

The soon to be submitted PL 106-50; “reporting requirements to the President of the United States and the U.S. Congress”, will illustrate a dismal performance by federal agencies in meeting the PL 106-50 agencies in meeting the PL 106-50 instructions of the Congress.

Government agencies have offered public relations and “outreach events” as evidence of performance, instead the required of contract awards and procurements.

The SDV population is under the twin. Assault of aging and disability. Veterans are dying at the rate of 1,200 per day and the SDV constitutes a significant proportion of those deaths. Because the SDV has been compromised by his governments actions.

There is no population more in need of decisive action to enable their rehabilitation. No population is more entitled to unique assistance than those that sacrificed their own well-being for the freedom and prosperity of the world.

The procurement policies of our government are “A Tower of Babel”. Unintelligible to most businesses seeking to access federal procurements and costly exercises in frustration for even the largest businesses.

The U.S. Congress must not allow previous confused and complicated manipulation in Federal Procurement Practices, to deter it from making available to service disabled and prisoner of war veteran owned businesses, the privileges and advantages given to other special interest groups.

The SDV Procurement participation data missing in previous years is now available. And it tells a shameful story.

There are two other concerns that require immediate attention;

- (1) Succession: Few SDV businesses are successful without the “true partnering” participation and support of a spouse or significant other. The unique physical limitations of a SDV require intimate involvement in virtually every facet of a business.

Because the eligibility of a SDV business is dependant on the ownership of the SDV veteran the veterans death or prolonged absence threatens the continuation of the business that is really the product of a unique relationship.

A formula for succession of the SDV business, where a dependant partner is an intricate participant should be defined in legislation.

- (2) Another concern is certification of a SDV business as a eligible participant and beneficiary of PL 106-50 certification by the U.S. Department of Veterans Affairs that the individual is a veteran with an adjudicated service connected disability, or a former prisoner of war for nine months or more, has been a routing requirement in the precursor state of California SDV Business Program. It should be required for Federal eligibility as well.

**VETERANS OF FOREIGN WARS**

**OF THE UNITED STATES**



STATEMENT OF

ANTHONY L. EILAND, SPECIAL ASSISTANT  
NATIONAL VETERANS EMPLOYMENT POLICY  
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT & GOVERNMENT  
PROGRAMS  
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO  
SUGGESTIONS FOR IMPROVEMENTS IN PROGRAMS AND SERVICES  
PROVIDED BY THE SMALL BUSINESS ADMINISTRATION (SBA) IN  
REGARDS TO VETERANS; THE ROLE OF THE VETERANS CORPORATION;  
AND COMMENTS ON H.R. 3263 THE *VETERANS' SMALL BUSINESS RELIEF  
ACT OF 2001*

Washington, DC

May 21, 2002

Mr. Chairman and Members of the Subcommittee:

On behalf of the 2.7 million members of the Veterans of Foreign Wars of the United States (VFW) and our Ladies Auxiliary, we appreciate the opportunity to participate in today's hearing to communicate to you our views on the Small Business Administration's (SBA) role in implementing veterans' programs and services, our opinions on the status of the *Veterans Corporation* and comment on H.R. 3263 the *Veterans' Small Business Relief Act of 2001*.

Mr. Chairman, when assessing and analyzing the role that SBA is playing with assisting future veteran entrepreneurs, we must look at the SBA with a proper perspective

and understand exactly what it is we, as veterans', want from them. Then, we must define how we expect to hold them accountable for what they can control and measure those things that can be measured and reasonably obtained. We see the SBA making headway in this process through its cooperative efforts with both the Departments of Veterans Affairs (VA) *Center for Veterans Enterprise* and the *Veterans Corporation*. By fostering some form of dialogue between the two agencies (SBA and VA) and the independent entity (the *Veterans Corporation*), the ability of streamlining programs and services while maintaining a sense of direction and achieving success, can become the rule instead of the exception. Although there has been a questionable record of the role SBA has played in the implementation of specific programs for veterans in the past, we believe that the relationship is improving and has the potential to develop into something much better.

For example, the VFW has enjoyed a productive relationship with the Assistant Administrator for Veterans Affairs William Elmore and his staff within the SBA's *Office of Veterans Business Development*. Two staffers primarily have stood out, Mr. Ajoy Sinha and Ms. Audrey Moore. They have been very helpful in providing direct personal assistance to veterans from our organization on a one-on-one basis with a strong "hands-on approach". We have had members directly contact our office commenting on the superior service and assistance they were provided in either developing particular details to their business plans or simply looking for specific information to answer unique questions. We see this as a valued added service that only enhances their ability to support veteran-owned business enterprises, be it by mail, phone or e-mail.

Another positive item to address is the U.S. Business Advisor Website that is sponsored by the SBA. It has been effective tools in providing general business aids that promote small businesses within our membership to receive free assistance in expanding their businesses and removing obstacles that could lead to potential disaster.

On a critical note, the SBA is performing an adequate job with the funding they have been provided with but there is still more that can and must be done. Unfortunately, their abilities are severely limited because of minimum funding levels that have been placed upon them by the Administrator. This does have a direct impact on the scope and quality of veterans' programs and services that can be used for outreach, be it either through mailings, promotional campaigns or seminars. Another critique is the involvement of SBA with the veterans groups themselves. For example, while our relationship with the *Office of Veterans Business Development* has improved, the VFW remembers the promise that the SBA made concerning wanting to expand their relationship with the Veteran Service Organizations (VSO). Unfortunately, we have only seen limited examples outside of the *Office of Veterans Business Development*. We have yet to meet with the Administrator Hector Barreto, let alone speak directly with him to voice our desires and concerns. In addition, we are also disappointed in how long it has taken the Administrator to complete the SBA Advisory Committee and his seeming lack of overall commitment towards our concerns for service-disabled veterans as a whole. The VFW is very disappointed that this issue has not been treated with the sense of urgency that it deserves. While we understand that we are not the only programs that the SBA oversees, we still desire to be treated with a balanced and even-handed approach.

At this critical point in time, veterans' programs are essential to ensuring a good faith gesture between the government and the people whom they serve to be guaranteed the opportunity to maximize any small business development program. The VFW does not view the programs of the SBA as simple entitlements to be given out, but as investments in the long-term economic growth and stability of the U.S. economy. We want to be completely frank that the VFW does not want a "give-away program mentality" or anything for that matter that will dilute the creditability of the veteran or disabled veteran business owner. Whether Black, White, Hispanic or Asian; male or female; service disabled or economically impoverished; veterans have earned, through their dedicated service and commitment to their country, the right to be offered an opportunity to compete on an equal playing field with every other group that is provided a service by the SBA for long-term solutions for establishing business ventures.

Mr. Chairman, we believe that the SBA can only be successful in its mission of assisting veterans if it has the following components: the full support of the Congress through maintaining strict implementation of existing laws and provisions that will enable the SBA to be effective and adequate funding of the *Office of Veterans Business Development*. There also has to be a clear understanding of where the veteran community belongs within SBA. Be it through a realistic goal setting measurement that is obtainable and takes into account the service-disabled veterans' individual situations or creating a Small Disadvantaged Business (SDB) status for disabled-veteran owned business that will allow them to compete on equal ground within the SBA as a disadvantaged business enterprise is a must.

Veterans, especially disabled-veterans, are a valuable resource that has never been fully utilized to its maximum potential by the private sector; therefore, they should be allowed to capitalize on their own skills and abilities to succeed. In light of this, the Veterans of Foreign Wars sees the importance in supporting an initiative that would make reaching out to these people and addressing their needs a priority. Reaching these veterans and addressing their needs is crucial because the need for direct financial support in acquiring starting capital is the number one request we receive from veterans with respect to small business questions and inquires. For this very reason, we supported P.L. 106-50 and worked diligently to seek its funding and implementation. The *Veterans Corporation* was the by-product of that work. The *Veterans Corporation*, in its present form, has only been in effect for approximately 200 days, not enough time to make a creditable assessment of their progress. Yet, the VFW does see the potential of the *Veterans Corporation* and are committed to assisting and working with them to achieve a source of answers for veterans small business questions and also putting them in a position to finding sources of financial revenue.

Mr. Chairman, concerning our view on H.R. 3263, the *Veterans' Small Business Relief Act of 2001*, we support its timely enactment. We see it as a welcome measure to ensure that disabled veteran small business owners have an additional opportunity towards success.

Mr. Chairman, we need to maintain the focus that everything we are doing here today is for one purpose and one purpose only; to assist veterans, especially disabled veterans, establish successful independent small businesses and become as self-sufficient as possible to add to the continued economic growth of our country.



Mr. Chairman, this concludes my statement and I would be pleased to answer any questions you or the members of the Subcommittee may have at this time.

As per the terms of rule XI, clause 2(g)(4), of the Rules of the House of Representatives, the *Veterans of Foreign Wars* is not in receipt of any federal grants.



***Vietnam Veterans of America***

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*A Not-For-Profit Veterans Service Organization Chartered by the United States Congress*

Statement of

**VIETNAM VETERANS OF AMERICA**

Submitted by

Richard Weidman  
Director, Government Relations

Before the

Subcommittee on Workforce Empowerment, and Government Programs  
Committee on Small Business

Regarding

H.R. 3263 the Veterans' Small Business Relief Act of 2001

May 21, 2002

**Attachments I and II**

Vietnam Veterans of America

**Testimony before the  
Subcommittee on Workforce, Empowerment, and  
Government Programs of the Committee on  
Small Business - May 21, 2002**

Good Afternoon, Mr. Chairman. My name is Rick Weidman, and I currently serve as Director of Government Relations for Vietnam Veterans of America (VVA). I also have the honor of serving as Chairman of the Task Force on Veterans Entrepreneurship (TFVE), which is a united effort by virtually all of the major veterans groups as well as veteran entrepreneurs to seek proper opportunities for veterans, particularly disabled veterans, to get assistance to succeed in small business and self-employment. I thank you for the opportunity to present brief remarks here this afternoon in regard to veterans' entrepreneurship.

VVA and all of us in the veterans' community remain grateful to the members and the staff of this committee for your diligent efforts in drafting and passage/enactment of Public Law 106-50, the "Veterans Entrepreneurship and Small Business Act of 1999." We salute your strong leadership and vision. We also thank you for your diligence and leadership in holding two oversight hearings last year that dealt with the implementation (or lack thereof) of P.L. 106-50. Finally, both the Vietnam Veterans of America and the Task Force for Veterans Entrepreneurship thank you for your leadership in holding this hearing today.

After almost a two year struggle subsequent to the enactment of P.L. 106-50, we finally got procurement regulations that were substantially correct published in January of 2002. We believe that is only because the TFVE, many Members of Congress, and others pressed hard to make this finally happen. Even then, one of the service disabled veteran business owners that works with TFVE paid significant legal fees to a major Washington law firm experienced in regulatory matters to help make it happen. This process has just taken too long, Mr. Chairman, and is now still not resulting in any significant procurement activity on the part of agencies in regard to ensuring that at **least 3%** of all contracts and all subcontracts are awarded to service disabled veteran owned and operated businesses.

As reported here last year, the Office of the Associate Administrator for Veterans Business Development has been created at the Small Business Administration (SBA) as required by the law. However, that appears to be the sum total of all activity by any of the areas at the moment, except for the efforts of the Honorable Thomas Sullivan, the Small Business Advocate. You will recall that P.L. 106-50 required that veterans and disabled veterans be recognized and provided required additional assistance in each and every SBA program run by or through the SBA. Not only do I have to report (again) that this has not happened, but there is virtually no reference to veterans or disabled veterans at all on the SBA web page or in their brochures. They seem to continue to be either willfully ignorant of the law, or incredibly contemptuous of the Congress and the Congressional intent of P.L. 106-50.

There still has been no one named to the Advisory Committee on Veterans Business Development, after three years. There has been no invitation whatsoever by the current Administrator for the TFVE or the major veterans organizations to meet with him. While the

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Associate Administrator for Veterans Business Development is supposed to answer directly to the Administrator, we can only assume that the contact is infrequent and generally not substantive, as it became clear to many veteran advocates at the social contacts during Small Business Week that this Administrator is not knowledgeable about the needs of veterans, much less actively engaged in the management of this program. We suspect the problem is that he is being "protected" by some at SBA who are not committed to the success of the veterans business development program. We would guess that he has no idea that he should be issuing an Administrator's Order in regard to veterans. Given the fact that we are at war, now might be an appropriate time to actually proceed with this action, particularly to send a message to those serving today that their Nation will not abandon them if they are wounded or injured.

We point out that there has been little or no activity by anyone, for instance, in the Women's Program to reach out to disabled veteran women owned business owners or would be entrepreneurs. In fact there has never been any effort by the SBA in the programs devoted to women's programs to reach women veterans, despite the fact that this year the women's program received well over \$100 million and the veterans' business office received only \$750,000 for all activities. Clearly most staff at SBA have never read the relevant section of the law, nor has anyone in authority told them that they have responsibilities toward veterans, especially disabled veterans.

There has been some activity by the Small Business Development Centers that has greatly aided veterans, particularly disabled veteran entrepreneurs. We have had good cooperation and very active commitment from the Association of Small Business Development Centers, and their Executive Director Don Wilson.

The relationship with SCORE, as mandated in the law, has been more problematic, as there has been no full time veterans coordinator appointed, which is required in the law. In large measure this is because the SBA has never asked for the money for such a position, but rather asked SCORE to absorb the cost of this position in an already inadequate budget. A recent breakthrough in this regard is that the Executive Director of SCORE has agreed to sit down with TFVE to work out a memorandum of understanding that will actually result in something getting done for veterans.

In fact, all of our contact with SBA, and hence our appraisal of their performance has to be generally anecdotal, as the SBA has not delivered a single written report to the Congress on the status of veterans and disabled veterans as required by the law that took effect in August of 1999. There are rumors the report for FY 2000 has been written for more than a year, that the report for FY 2001 has been written for almost six months, but are stuck somewhere in the "concurrence" mechanisms of the bureaucracy at SBA.

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There are, of course, seemingly always frustrations in dealing with the SBA in regard to veterans. I had always assumed that this was because there were not enough outstanding managers at the SBA. However, VVA has discovered that out of the 36 Senior Executive Service personnel at the SBA, that none were rated as unsatisfactory or minimally successful, six were superior in their performance, and 29 were just outstanding. In fact, 25 of them got bonuses that totaled \$396,000, which is more than half of the total operating budget of the Office of the Associate Administrator for Veterans Business Development (which seems to be the sum, total of activity that assists veterans at the SBA, contrary to the law.)

Secretary of Veterans Affairs Anthony Principi deserves credit for moving ahead to establish the Center for Veterans Enterprise (CVE) at the Department of Veterans Affairs. While there is a long way to go in regard to making CVE a truly substantive and useful entity, it is a very visible commitment and a good start toward something that can be truly extraordinary.

The really bright spot in all of this is that the National Veterans Business Development Corporation is finally on track toward becoming the kind of force that it should be in regard to assisting veterans. The Veterans Corporation (as they are often referred to now) has a full complement of Board members, and at last has a Chief Executive Officer who appears to have the imagination, integrity, strength, and drive to make the Corporation into something like this Committee first envisioned almost three years ago. By next Autumn, there will be a number of tools available to assist veterans available all across America.

Unfortunately, due to difficulties in the Executive branch the Corporation is over two and one half years behind where it should be at this juncture. Therefore, we urge the Committee to take action now to authorize another two years of Federal funding for the Corporation at the \$4 million level. VVA further urges that the Certification program be moved to another entity to house it. VVA believes that anything that detracts from the central mission of the Corporation should be moved, whether by MOU or by changing the statute.

Lastly, Mr. Chairman, attached please find a copy of the prospective legislative and policy goals of the TFVE for the remainder of the 107<sup>th</sup> Congress. The attached has interim approval from our participants, that will be finalized on June 11. In the interim, we ask you and your distinguished colleagues for your support in examining what needs to be changed and "fine tuned" in P.L. 106-50, based on almost three years experience. With your permission, we will begin work with staff at the earliest possible time.

Thank you for this opportunity to present our views, Mr. Chairman.

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**Attachment 1****Task Force for Veterans' Entrepreneurship  
Legislative Goals for 2002/03**

- Extend NVBDC funding to FY2006, at the rate of \$4 million per year due to late start.
- Push for at least a \$3 million budget for the SBA Office of Small Business Development for FY 2003 (President's request is only \$750,000)
  - A1% performance and integrity bonus for contractors.
  - At a certain contract level, prime contractors identify subcontractors by name and category (i.e. veteran, women, minority, disabled, etc.).
- Ensure that all Memorandums of Understanding (MOU) have measurable objectives in accordance with the Government Performance and Results Act (GPRA).
- Push for legislation to include service-disabled veteran-owned businesses as disadvantaged business enterprises (DBEs) in federal contracts
  - Encourage methods to easily locate disabled veteran-owned businesses.
  - Encourage Mentor Protégé programs.
- Create the Service-Disabled Veterans Competitive Research Program that creates contract accessibility to service-disabled veteran-owned small businesses.
  - Key to the program would be its prioritization as the highest ranking among procurement assistance programs.
- Encourage an open system of GSA schedules to give credit to agencies, which purchase from GSA schedules (and other government schedules) when they purchase from small businesses owned by veterans, women, minorities, and HUBZones.
  - Ensure compliance within two fiscal years.
- Target the Senate Commerce, Science, and Transportation Committee, particularly Inouye (D-HI), McCain (R-AZ), Cleland (D-GA), and Kerry (D-MA), for support in working with DOT for targeted assistance with fair and equal competition.
- Encourage SBA to sponsor a Summit for Veterans Entrepreneurship in FY 2003 to foster networking and mentoring/protégé programs.

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- Ensure involvement and participation in the White House Conference on Small Business.
- Amend Chapter 31 to enable service disabled veterans enrolled in a rehabilitation program to pursue self-employment goals, and benefit from inventory, equipment, and other small business start-up assistance from the VA without requiring the veteran to establish that he or she is unable to be employed in a regular job as current policy prescribes.
- Authorize the National Veterans Business Development Corporation to have access to all federal small business and veteran databases, and change all relevant statutes for conforming amendments.

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**Attachment II****Task Force for Veterans' Entrepreneurship****Mission Statement**

**Background:** On August 17, 1999, The "*Veterans' Entrepreneurship and Small Business Development Act of 1999*," H.R. 1568 was signed into law, as P.L. 106-50. This piece of legislation is one of the most significant pieces of veterans' legislation to be passed in years, and is going to greatly expand and improve SBA's small business assistance services to veterans and disabled veterans. The enactment of P.L. 106-50 was the culmination of months of closely coordinated and integrated efforts by many various veterans' service organizations and other veterans grassroots groups. This group, presented a cohesive, united front to Congress and the Small Business Administration, and effectively advocated for the passage of P.L. 106-50. Without a doubt, the benefits of advocating as one unified front, in contrast to a disparate and uncoordinated effort by individual groups, paid off.

**Purpose:** P.L. 106-50 is now officially enacted. However, much work remains to be done. Veterans' groups and other interested groups must now work to ensure that P.L. 106-50 is *properly implemented and enforced*. Certain programs under 106-50 have yet to be implemented or to receive funding. The SBA Office of Veterans Affairs is currently developing initiatives and programs to be carried out under the auspices of 106-50, and the SBA Veterans Advisory Committee has also yet to be named. In order for 106-50 to be implemented in the manner that it was intended, it is imperative that veterans' groups and our friends take on a leadership role in the implementation process.

**Mission:** The *Task Force for Veterans Entrepreneurship* aims to once again present a strong unified veterans' voice in this critical process. All veterans and military groups, and veterans' advocates who wish to participate on this Task Force are encouraged to do so. The Task Force will meet on a fairly regular schedule to coordinate P.L. 106-50 activities; members will keep in close contact with one another and correspondence will be sent out on Task Force letterhead, listing all member groups. Actions of the Task Force will be taken by consensus, and hopefully augmented by efforts of the various participants.

If you have any questions or concerns regarding the *Task Force for Veterans Entrepreneurship* please call Rick Weidman at 301-585-4000 ext. 127, Bill Truitt at 202-543-1942, or Vernessa Franklin 301-585-4000 ext.118.



**Testimony of Ronald E. Bew**  
**Associate Deputy Administrator for Capital Access**  
**Before the House Committee on Small Business**  
**Subcommittee on Workforce, Empowerment and Government Programs**  
**Tuesday, May 21, 2002**  
**SBA Asset Sales Program**

Mr. Chairman, Ranking Member Millender-McDonald, and members of the Subcommittee, thank you for inviting me here today. My name is Ronald Bew, and I am the Associate Deputy Administrator for Capital Access for the U.S. Small Business Administration (SBA). I am here today to discuss the SBA's Asset Sales Program (Program).

The Program, designed to sell loans owned by SBA to private sector investors, is part of a government-wide effort to more efficiently manage the government's credit portfolios. SBA initiated its Asset Sale Program in FY 1998, and each federal budget from FY 1998 through and including FY 2003 has mandated loan sales. The first sale of 4,060 loans with an unpaid principal balance of \$332.4 million occurred in August 1999. Since then, SBA has through five sales sold 111,266 loans with an unpaid principal balance of \$4.65 billion. These sales have generated gross proceeds of \$2.67 billion. The next sale is planned for this August, and SBA plans to conduct two to three asset sales per year.

Through the Program, SBA has saved taxpayers money by selling loans to the private sector at a value that exceeds the Agency's expected hold value. Doing so frees up resources, making the program more cost-effective and allowing scarce resources to be used for increased money available for loans and for enhanced outreach and delivery for future borrowers. SBA has done this while protecting the public policy goals of its loan programs.

Selling assets has also allowed SBA to improve its portfolio management and has created an opportunity for the Agency to re-deploy staff that would otherwise be used in portfolio-servicing. One of SBA's core functions is to provide financing for small businesses and for homeowners and businesses that are the victims of disasters. SBA staff work associated with collection and processing of loan payments – commonly referred to as loan servicing – does not further this goal. At the start of the Program, the Agency was using hundreds of employees to service over 290,000 loans. Selling these loans allows servicing staff to perform other functions, such as loan origination, lender monitoring and risk management. These functions directly further our goal of providing capital access to credit-worthy borrowers efficiently and effectively.

**Public Policy Issues**

SBA maintains a high sensitivity to the public policy issues associated with its borrowers and its mission of assisting in their success. Prior to the launch of the first asset sale, SBA spent many hours evaluating policy issues associated with transfer of ownership and servicing of its loans to the private sector. The initial period of development resulted in the creation of appropriate qualifications for investors and servicers and post-sale servicing requirements:

- (a) Bidder Qualifications – SBA requires that each bidder certify that it: (i) is a substantial, sophisticated entity that has the knowledge and experience in financial or business matters relating to the purchase of assets of the type being offered by SBA and that can bear the economic risks of a purchase of any or all of the assets being offered for sale; (ii) have the ability to make its own independent investigation and evaluation of any assets ultimately offered for sale and the economic, credit or other risks involved in an investment in any such assets, including, without limitation, the ability to resell or otherwise liquidate any such assets; (iii) will comply with all applicable securities laws; and (iv) is not debarred or suspended from doing business with the SBA, any other agency of the U.S. government, or an SBA employee, contractor or subcontractor that performs services on the transaction in question.
- (b) Servicer Qualifications – SBA requires that the servicer (or an affiliate) be one or more of the following: (i) an SBA-approved lender currently authorized to originate and service SBA-guaranteed or SBDC loans; (ii) a servicer currently approved to service loans for a U.S. federal entity or government-sponsored-enterprise; (iii) a loan servicer currently rated as “average” or above by a nationally recognized rating agency; (iv) a financial institution supervised and examined by any state or federal regulatory authority; (v) with respect to business loans, a loan servicer with experience in servicing commercial or small business loans which employs personnel who are trained and experienced in servicing such loans and who are supervised by a corporate officer or company manager who possess a minimum of three years of experience in servicing such loans; or (vi) with respect to disaster assistance home loans, a loan servicer with experience in servicing consumer loans which employs personnel who are trained and experienced in servicing such loans and who are supervised by a corporate officer or company manager who possess a minimum of three years of experience in servicing such loans. The servicer must also have a written loss mitigation program in place and must not be currently disbarred or suspended from doing business with SBA or any other federal or state agency.
- (c) Post-Sale Servicing Requirements – SBA requires that buyers service the loans and cause any future servicers to service the loans in accordance with prudent commercial servicing practices. Buyers are also responsible for insuring that each future servicer of the loans provide (1) a written notice of any change from the SBA’s current servicing practices with respect to the placement of forced-place insurance, assessment of late charges, maintenance of escrow accounts, enforcement of non-monetary terms and conditions of the Loan Documents for any Loan and the exercise of other rights set forth in the Loan Documents, and (2) access to multi-lingual personnel to assist obligors on an as-needed basis.

In addition, SBA created policies with respect to informative advance and follow-up written communications for borrowers, loan selection criteria, toll-free help numbers, and examination of SBA Standard Operating Procedures compared with private sector servicing practices.

A review and comparison of servicing practices revealed a consistency between private sector commercially reasonable practices and SBA Standard Operating Procedures, particularly in regard to substitution or release of collateral and to subordination of lien position. Such servicing actions are approved only if the holder of the loan, after the servicing action is accomplished, would end up in at least as secure a position as they were in

before the servicing action as to collateral, collateral type, and the amount of equity in the collateral securing the loan.

The Disaster Assistance Loan Program purpose of "assisting the borrower in returning their property to pre-disaster condition" and mission of "helping the borrowers recover from the effects of a natural disaster" are addressed in the loan selection process. Disaster assistance loans are not sold until they are at least two years old, as the majority of disaster-related changes to loans occur during the first two years of loans. Examples of such early changes include changes in collateral, additional collateral, an increase in size which requires a loan to become collateralized, and an increase in loan amount due to newly revealed damage. Existing disaster assistance loans that are in a deferral status and located in an area of a newly declared disaster are also not selected for sale regardless of age. In the aftermath of September 11, SBA excluded all disaster loans in the disaster declared counties from asset sales for the immediate future.

SBA has also recently changed its borrower notification process to better ensure that each borrower with a loan scheduled for an asset sale is fully aware of the pending action. Although this notice is not legally mandated, SBA believes that it is important to keep its lines of communication with borrowers open.

The written notice of the sale is sent to the borrower approximately four months before each scheduled sale and includes a series of frequently asked questions based on previous issues raised by borrowers, including questions regarding the types of servicing actions the sale process might affect. SBA also frequently updates our field offices and servicing centers regarding the status of each sale so that these offices can work with any borrower that has a situation that requires special handling.

SBA's attention to customer service has contributed greatly to limiting customer complaints about the Program. Of the approximately 111,000 loans sold since the first asset sale, SBA has received very few borrower complaints. As stated earlier, the purchaser is required to maintain the terms and conditions of the loans unless the borrower requests changes. By ensuring that the purchaser has similar standard operating procedures to SBA, SBA further protects the borrowers if changes are requested. Additionally, in the rare instances in which SBA does receive a complaint, SBA follows up on each complaint by contacting the loan purchaser and asking the purchaser to attempt to resolve the borrower's concerns. While SBA retains no legal right to mandate that purchasers comply with borrowers' requests, most cases result in the purchaser and the borrower working out a mutually acceptable solution.

#### **Program structure**

In the initial stages of the Program, the Office of Management and Budget (OMB) tasked SBA to attempt to sell by FY 2000 its entire "owned-loan" portfolio (direct loans and purchased guarantees) of approximately 290,000 loans, with an unpaid principal balance of about \$10 billion. While that initial aggressive timeline of selling the entire owned portfolio within three years will not be achieved, SBA does plan to complete the sale of its remaining owned-loan portfolio by the end of FY 2003. Once SBA sells its owned-loan portfolio, it plans on selling its "pipeline" loans – the approximately \$900 million of Disaster Assistance Loans it originates in addition to the approximately \$500 million 7(a) and 504 business loans it purchases annually – in

two to three sales a year, with each sale to be conducted in a competitive, sealed-bid auction format to maximize sale proceeds.

Over the course of the first five asset sales, 45 separate bidding entities have participated, and SBA has awarded loans to 15 different bidders (with some entities having purchased loans from more than one auction). Bidders have included top Wall Street investment banks, large national banks, regional banks, special servicers, high net worth individuals, and small investment companies.

SBA provides these bidders abundant, accurate and easily accessible loan information by remote access over the Internet at a nominal cost in order to expand the potential bidding community and maximize gross proceeds. Doing so especially assists small bidders who frequently do not have the resources to invest the time and expense in traveling to a central location to view the due diligence materials. SBA also aids smaller bidders by structuring each sale so that ten to 15 percent of the pools offered for sale within each asset sale will be of a size that a smaller investor would be able to purchase. These smaller pools have typically ranged in size from \$1 million to \$12 million. SBA has also structured the bidding methods so that investors must bid on these smaller pools individually; investors may not combine their bids on these pools with other bids or pools. Each sale has allowed some small investors to win at least some of the pools.

Each individual sale takes almost nine months to complete. SBA has developed a system that leverages teams of contractors to allow multiple sales to proceed simultaneously. The Program will continue to evolve as technology advances and market conditions change. SBA will also continue to apply the lessons it learns from each individual sale and requires its contractors during each sale to note and record all policy and process improvements.

Each individual sale is now designed to include all available district and branch office loans and as many purchased 7(a) loans as possible, as well as disaster loans, using the selection criteria enumerated earlier. SBA also stratifies the loans it includes in individual pools so that they appeal to the widest audience of investors possible, under the theory that investors will pay more for loans that they are interested in without having to take loans they are not interested in. These investors can bid on pools of loans that satisfy their specific criteria or combination of criteria. For example, some investors buy residential loans regardless of whether they are performing, while others will buy only residential loans that are not performing, and still others will buy only business loans that are secured by commercial real estate. Since these interests change from time to time due to changing investor preferences and changes in market conditions, SBA revisits its criteria for pooling for each new sale through extensive investor outreach and market analysis.

OMB requires that SBA sell loans with only limited representations and warranties about their status and condition made to the investor. These include basic issues of fact, including certifying that prior to sale the Agency had legal title, that the security documents are enforceable, and that SBA has the right to sell the loans. By providing only these limited representations and warranties, SBA is assured that it will not need to repurchase most loans following a sale as a result of a breach of a representation or warranty.

**Benefits**

In addition to the benefits to the taxpayers and future borrowers mentioned earlier, the Program has been very beneficial for SBA in reducing its outstanding loan portfolio. For a variety of reasons, many borrowers find a way to pay off their loans when SBA informs them that their loans have been selected for sale. Of the loans that SBA selected for the first four sales, over 9,880 loans aggregating approximately \$382 million were paid in full, and 702 loans totaling \$107 million entered into compromise agreements. Additionally with those first four sales, SBA was able to charge off over 7,549 loans aggregating approximately \$632 million of unpaid principal balance.

The Program has also drawn attention to information system needs that could improve SBA's portfolio management ability, making the sale process more efficient. Implementing the Program helped SBA to identify the need to capture collateral data electronically and to maintain collateral data in a commercially acceptable manner. SBA is also currently undergoing a Systems Modernization Project that will include many of the items highlighted by the Program, including capturing and maintaining collateral information, maintaining current lien information and collecting credit scores.

Undertaking the Program has also prompted better compliance with SBA Standard Operating Procedures as current servicing practices come under review. In its efforts to educate investors regarding servicing procedures and policies, the Asset Sales Team has identified the need to ensure that all district, branch and servicing centers consistently apply Standard Operating Procedures. The due diligence process and biweekly conference calls with field offices have revealed that some servicing actions have not been consistently applied. Discovering such inconsistencies provides senior management with an opportunity to consider appropriate actions and to communicate those actions to field offices.

Thank you for the opportunity to appear here today. I will be happy to answer your questions.