



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

April 10, 2008

The Honorable John Kerry
Chairman, Committee on Small Business
and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your recent letter regarding the implementing of the recently authorized pilot 7(a) loan programs for energy efficiency investments and veterans. I appreciate the opportunity to provide you with the status of these programs and the U.S. Small Business Administration's (SBA) determination that these programs require implementation of a separate appropriation.

The Energy Independence and Security Act of 2007 was signed into law on December 19, 2007. On February 14, 2008, the President signed into law the Military Reservist and Veteran Reauthorization and Opportunity Act of 2008.

While the 7(a) program in general has varying fee levels for different loan amounts, these pilots establish specific categories of loans with separate fee structures. The pilot programs create two discrete subsets of 7(a) loans with different risk profiles, lending criteria, and fees that constitute separate risk categories. These are subdivisions of a cohort into groups that are relatively homogeneous in cost, given the facts known at the time of obligation or commitment. The pilot programs would have positive subsidy rates in 2008 and 2009, which would require appropriations. As such, SBA cannot make these loans absent an appropriation to cover the subsidy costs.

Several additional factors contribute to the conclusion that separate risk categories exist for both of the new loan pilot programs. First, the legislation for both pilots reduces upfront fees by half making them substantially different from standard 7(a) loans. Secondly, SBA is unable to raise the ongoing annual fee because, by statute, it is set "once annually" in the Administration's annual budget request to Congress. Further, the ongoing annual fee is near its statutory ceiling and so cannot be raised sufficiently to fund the statutory reduction in the upfront fee and maintain the statutorily required zero subsidy. In addition, the fee waiver provision in the respective statutes cannot be invoked because SBA cannot meet the statutory waiver conditions. Finally, the pilot statutes do not allow SBA to increase the upfront fees on other 7(a) loans to fund the pilots.

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It is important to note that SBA can fund loans for both energy efficiency purposes and for veterans under the existing 7(a) loan program. Specifically, SBA currently assists the veterans' and military community by approving approximately \$1 billion annually in loans to veterans. To further assist veterans, SBA implemented the Patriot Express Pilot Program. Since its establishment in June 2007, more than 1,000 loans have been made to veterans, Reservists, National Guard Members, and their spouses. In addition, SBA will soon announce changes incorporating the Energy Independence and Security Act's Section 1201, Express Loans for Renewable Energy and Energy Efficiency into its SBA Express Loan Program.

In summary, while the pilot programs cannot be accommodated within the zero subsidy framework of the broader 7(a) program, SBA provides substantial lending support for veterans, the military community, and for energy efficiency technologies through the existing 7(a) framework. In 2008, we anticipate supporting over \$14 billion of lending through the 7(a) program as a whole.

Again, thank you for your inquiry regarding these programs. I look forward to working with you on SBA's programs and on addressing any further questions that you may have.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Steve Preston". The signature is stylized and fluid, with a long horizontal stroke at the end.

Steven C. Preston