Remarks For

The Hon. Steve Preston
Administrator
U.S. Small Business Administration

Delivered At The

NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS
2007 ANNUAL CONFERENCE

Las Vegas, NV

October 25, 2007
12:15 pm

Thank you, Tony, for that very nice introduction. I'm very happy to be here again with you, our partners in the lending community.

I'm also happy to say that for the sixth consecutive year, SBA lending has set a new record – and that much of that growth was driven by loans to underserved markets in our country. In fiscal 2007, SBA-approved small business loans totaled more than 110,000 for more than $20.6 billion. The growth of our loan volume of the last several years reflects your efforts to empower America's small businesses; it's all of your hard work that drives this progress, and so I thank you for your commitment to small business success across the country.

When I spoke with you last year in Phoenix, I outlined where we were going, and how we were going to get there. I presented a series of objective for the agency:

- First: to clean up our disaster loan backlog in the Gulf and to take the lessons from Hurricane Katrina and put in place a robust, scalable disaster loan operation so that we is prepared to help Americans recover quickly from disasters, regardless of the scale.
- Second: to become much more focused on the needs of our customers and partners, and to respond by improving our products and processes.
- Third: to become more effective is supporting entrepreneurship in underserved markets – those areas of our country with higher than average unemployment and poverty.

We have made tremendous progress in one short year, and we have a clear line of sight on the road ahead.

This does not mean that we aren't facing challenges. We are. But now more than ever, SBA and our employees are able to respond – to understand the issues and opportunities; to design solutions; to implement those solutions; and to measure the results throughout the agency.

The SBA today is working to drive a commitment to service and a goal-oriented culture throughout the agency so that we can continue to set and meet ambitious goals. Let me give you a few more details on how we addressed the items I mentioned last year.

Last year when I spoke with you, we faced a serious problem with our disaster loan program after Hurricane Katrina; the demand for disaster loans overwhelmed the agency. In the summer of 2006, over 100,000 people had not had their loans disbursed. In response, we committed thousands of man hours to completely redesigning our processes and reengineering our Disaster Assistance program.

We've now disbursed more than $6 billion in approved disaster loans – money that is at work helping more than 100,000 families and business owners get their lives back on track, and helping to fuel the local economies. Our reengineered process allows us:

- To provide a dramatically faster response
- To reduce errors and confusion
- And to help borrowers through each step of the process by giving them a case manager who is accountable to them.

It also allows us to see problems ahead of time and address them.

We developed and implemented a comprehensive agency Disaster Recovery Plan, which I delivered in June to Congress.

The plan documents how we will prepare for, respond to, and recover from natural disasters – whatever their size.

- We have clearly defined plans
- We've trained hundreds of non-disaster personnel across the agency, and thousands outside of it.
- We are better coordinated with federal, state, and local governments as well as non-governmental organizations.

We are dramatically better prepared than ever before.

A second objective I discussed is becoming a better partner through more responsive, effective processes and products.

Many of you have spoken – often quite loudly – about the challenges with the agency's current SOP 50 10. We heard those comments, and committed to address the issues with a new SOP that lenders will find

easier to use and clearer. Thanks to the hard work from our team and the input from the field and headquarters, we currently have that document in the agency clearance process.

The new SOP is better organized, it's notably shorter, and we expect to have a final product in an electronic tool early next year. Some of you may have heard Frank Borchert, our general counsel, speak in more detail about it this morning. The bottom line, though, is that it's oriented toward lenders and we're convinced that you, and the rest of our partners in the lending community, will be pleased.

One of the reasons for a new SOP is that we need to work with you in a way that invites participation. It's also imperative that we consistently apply clear and reasonable policy guidelines.

For decades, SBA has had a brand name that has been respected in the market place. At the very heart of our brand is the guaranty, and I am not satisfied with the state of that promise today. I'm afraid we have come dangerously close to losing the very heart of our brand promise: the timely payment of the guaranty for lenders who adhere to the rules of the program. If we lose this, we let down our end of the partnership. It threatens the integrity of our brand, but moreover it threatens our good relationships with all of you.

Today we process more than 100,000 loans a year. Just five years ago we were only doing half as many. We currently have more than 300,000 SBA-backed loans outstanding. And of those, 1,200 are backlogged guaranties that have been submitted to our National Guaranty Purchase Center, and a lender is waiting – some for many months – to hear whether they are going to get paid. The backlog is larger and longer for loans purchased from the secondary market, but where we still have documentation to resolve. This is simply unacceptable.

This is a problem that has been building for years, and frankly, we didn't fully understand it until we conducted an extensive review supported by deep analytics. But by digging deep into a difficult situation, we know what the problems are. And as we did with our backlogged disaster program – and as we've done and are doing in a long list of other areas that you may or may not see – we will fix this. Let me tell you what we are doing.

First, this is the one major initiative in the entire agency that reports to me directly, and Grady Hedgespeth, our director of the office of Financial Assistance, is our campaign manager tasked with getting this done. If you have not yet met him I encourage you to seek him out and hear first hand the passion, energy and experience he brings to this task.

Second, I have approved a significant number of additional employees for our centers in Herndon, Little Rock, and Fresno to ensure that those centers have enough staff to meet the flow of our incoming volume.

Third, I have authorized additional guaranty purchase operations outside of Herndon specifically to deal with the backlog of loans. One is in production now, the second we expect to come on line by December.

Finally, at this conference we are introducing a new 10 Tab system for submitting purchase guaranties as a simpler alternative to the present 45 Tab format. While you can still use the 45 Tab system, the 10 Tab system offers a reduced number of items and a more intuitive flow, which should help improve package quality.

The main reason we have been unable to keep up with the volume of guaranty purchases is that the typical package submitted for our review is incomplete, which requires extensive rework and results in incessant delays. More than half of the existing backlog is lacking key information that we need to complete our review, and that is a major improvement from where we were.

We must work more closely with you to ensure we receive complete or near-complete packages the first time. We are training our people in the districts to support you locally. We will commit central resources to train

you in your centers. And the 10 Tab system should make the process simpler. We cannot be successful unless we can work with you to get it right at the front end. And if we can get packages right at the front end, we need to do our part to deliver back a timely response.

So, every new package submitted to our National Guaranty Purchase Center in Herndon after November 1, if that package is complete and reviewable using the new 10 Tab format, then you will have an answer back from us in 45 days or less. We have also build in time for interaction with you if there are minor issues with the package. Our pledge is to give you a 45 day response if you give us all the information we need based on the new 10 Tab format. Frankly, if the package is perfect, it should turn more quickly.

At the same time, we will be making significant progress on our backlogged cases as well when we bring up the second additional processing line near the end of the year.

In the past few months we have completed a full week of training for almost 1500 people from field staff, processing centers, and senior leadership. Training of this magnitude has never been done at the SBA, and it was a big success and was very well received by almost all who attended.

As part of that initiative, we have trained hundreds of people in our field offices to work with you on your packages. In fact, if you are submitting a package for the first time, or are unsure about how to do it correctly, we want you to call on your local SBA office for assistance before you send it to Herndon. Our local office staff will help you assemble all the items you will need and can support you in resolving outstanding issues with our processing centers. And in Herndon, we have created a customer service center to assist you in determining the status of a package and in resolving questions about the guaranty process.

All of this is part of our efforts to be a responsive, effective partner with a valuable brand promise. You will continue to see initiatives to simplify our products and automate our processes in an effort to be easier to do business with.

The reason it is so important for us to work well with you is because of the value our services provide to Americans, especially those who may not have access to them otherwise. I believe very strongly in the transformative power of small business

- The power to create the kind of robust economic foundations that sustain vibrant communities
- To open opportunities for new jobs and new services
- To build a sense of optimism
- And to tap into another very strong force: ownership.

President Bush, who I believe is the strongest advocate for the small business owner, has worked hard to promote an ownership society because, as he has said,

> *"…if you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country."*

Small business ownership is crucial to our ownership society because small businesses are so vital to our economy. They account for around half of non-farm GDP and half of all private sector employment nationwide. The importance of small businesses to underserved markets in inner cities and rural areas is magnified because small businesses employ an even higher percentage of workers in both urban and rural communities across the country.

Our ability to enable the private sector to become more engaged in underserved markets goes right to the core mission of this agency.

When we look closely at who uses SBA loans, we see that we are in a different place than the rest of the lending community. A soon to be released study that we have commissioned compares SBA's two loan products to conventional small business loans. It found that SBA-backed

loans were three times as likely to go to minority-owned businesses, twice as likely to go to start-up companies, and also more likely to go to women-owned businesses than conventional small business loans. SBA's guaranties are helping the lending community more effectively reach these specific demographics. And underserved markets belong in that group as well.

In the last fiscal year, SBA increased loans to underserved markets by more than 5.5 percent, approving more than 30,000 loans for more than $7.5 billion in those areas where we see much higher rates of poverty and unemployment – that's more than one-third of all loans we approved and it's growing faster than the overall portfolio.

Accelerating entrepreneurial success in underserved communities reaches to the very heart of the agency's mission, and it's something that many of you are working with us to accomplish. And we are continuing to expand our impact in a number of ways:

First, we are addressing it with products. We unveiled Rural Lender Advantage, a simplified and streamlined loan process that is tailored specifically to the needs of small lenders, like rural and community banks, that have very low volume. These lenders do have an important role in their local communities, and it is important for us to partner with them more effectively in order to boost entrepreneurship in their communities.

Rural Lender Advantage will be an easier process for them to use:

- The application will be shorter; we're shooting for 2-3 pages
- The application will be available online
- Routine loans will be processed in a few days.

Lenders can also call a helpdesk for assistance navigating eligibility requirements. We listened hard to the needs of these lenders and responded.

We're also making improvements to our Community Express loan so that it's more focused on underserved markets, but also so that it's easier for lenders and borrowers to use. Most of you do not use this product, and we have taken your feedback into account in the redesign.

Second, we are addressing it with goaling and outreach. Every SBA office now has a performance goal to make loans in underserved markets. It is one of the reasons we saw the higher growth last year.

Third, we are addressing it through partnerships. For example, we're designing a program called the SBA Emerging 200 to accelerate the growth of emerging inner city companies with strong potential. These companies would be run through an intensive curriculum that will include technical assistance and mentorship, with a focus on growth strategies and pursuing growth capital. We are working with a non-profit founded by Michael

Porter, called the Initiative for a Competitive Inner City, in order to leverage their expertise to help us design and implement the program.

We're increasing our outreach to teach aspiring entrepreneurs and current small business owners what they need to know about starting and growing a business. We announced a co-sponsorship with the Operation HOPE center in Harlem earlier this month, for instance, that would bring counselors from our existing resource partners into the center on a rotating basis. We hope to expand that to other cities in 2008.

Finally, we're assisting small businesses in underserved markets obtain more federal contracts, which is an important way of invigorating entrepreneurship. Last year the federal government fell short of its goal to award 3 percent of the $340 billion it spent on procurement to businesses in HUBZones, or Historically Underutilized Business Zones. To help the federal government meet its goal, we're expanding and improving our support staff, providing better tools to contracting officers to find HUBZone businesses that meet their needs, and holding other agencies accountable for meeting this important goal.

The initiative, as you can see, is agency wide, and it leverages the hard work and commitment of our partners. Our ability to reach underserved markets depends on our ability to develop the right partnerships in the

right places to reach the areas with greatest unmet need and potential. And this is why we are working on developing additional partnerships.

We succeed when our partners succeed. We set out what we want to accomplish, but you are the ones who make it happen. Some people have accused me of trying to jam an 8-year agenda into 2 ½ years. But I believe the needs around us are urgent and many – and the opportunity is here today. I thank you for working with us to support small businesses and entrepreneurs across America.