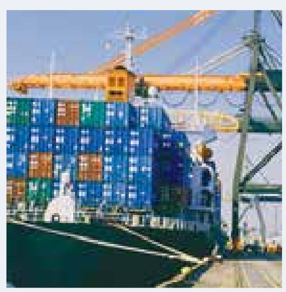
Management's Discussion & Analysis



PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a total business loan portfolio of $98.7 billion.

7(a) Loan Guaranties — The SBA offers government guaranties on loans (up to $5.0 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

504 CDC Loan Guaranties — These long-term, fixed-rate loans (up to $5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by certified development companies (CDC) which are private, non-profit corporations. CDCs work with the SBA and private lenders to provide the financing. The SBA guarantees the CDC's portion of these loans.

Microloans — The SBA provides loans to non-profit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to $50,000) to small businesses needing small-scale financing and technical assistance for start-up or expansion.

Surety Bonds — A surety bond is a type of insurance that guarantees performance of a contract. If one party does not fulfill its end of the bargain, then the surety bond provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses.

CONTRACTING (www.sba.gov/contracting)

The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, 5 percent to women-owned and small disadvantaged/8(a) businesses, and 3 percent to HUBZone and service-disabled veteran small businesses.

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the federal government. Within this goal are four sub-goals:

Small Disadvantaged Businesses— This program provides assistance through 8(a) Business Development and a set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts as well as in the private sector.

HUBZone Small Businesses — This program provides sole-source and set-aside contracting for firms located in economically disadvantaged geographical areas.

Service-Disabled Veteran-Owned Small Businesses — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

Women-Owned Small Businesses — This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned and controlled by women.

ADVISING, MENTORING, AND TRAINING (www.sba.gov/local-assistance)

The SBA and its partners serve over 1.2 million small business clients a year through the following programs.

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the U.S. and the insular territories.

Women's Business Centers — WBCs provide counseling and training through over 100 non-profit educational centers across the nation. They provide services on a vast array of topics, from how to write a business plan to programs specifically for veterans. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

Veterans Business Outreach Centers — SBA's 15 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with Reserve Component members starting new small businesses or expanding established small businesses.

SCORE — SCORE is a non-profit association comprised of over 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of the small business.

EXPORTING (www.sba.gov/oit)

The SBA provides export loans and training assistance to small businesses.

Export Loans — The SBA provides several different types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5.0 million), and International Trade loans (up to $5.0 million) that provide small businesses with enhanced export financing options for their export transactions. The SBA provides technical assistance on export loans through U.S. Export Assistance Centers.

U.S. Export Assistance Centers — USEACs are staffed by professionals from the SBA, Department of Commerce and the Export-Import Bank. Together, their mission is to help small and medium-sized businesses compete in today's global marketplace by providing export assistance.

HIGH-GROWTH SMALL BUSINESSES (www.sba.gov/inv)

The SBA supports high-growth investments through a portfolio of $9 billion in debenture leverage.

SBIC — Small Business Investment Companies are privately owned and managed investment funds that use their own capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

SBIR — The Small Business Innovation Research program is a highly competitive funding agreement program that stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small business. SBIR protects the small business and enables it to compete on the same level as larger businesses.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $6.8 billion in direct disaster loans to businesses, homeowners, and renters.

Disaster — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private non-profit organizations. It is the only form of SBA assistance not limited to small businesses.

SUCCESS STORY: Small Business Persons of the Year
Experience the Smell of Success

Pacifica, Portland, Oregon

Born with an entrepreneurial spirit, **William (Billy) Taylor,** CEO of Pacifica, got his start working for his grandparents on one of the first commercial marionberry farms in the world. **Brook Ann Harvey-Taylor,** President of Pacifica, became fascinated with the magical world of scents when, as a teen, she picked up a copy of author Tom Robbins' novel Jitterbug Perfume.

Billy's entrepreneurial spirit and Brook's creative vision joined forces. The duo borrowed a little money from family and started making candles in 1997. By 2008, Pacifica had reached $12 million in sales, but a change in distribution channels brought about a downturn that forced Billy and Brook to seek financing to reposition the brand and keep ownership of the firm. Through a $150,000 express line of credit and a $1.18 million SBA 7(a) loan, followed by a $500,000 SBA CAPLine, Billy and Brook secured the money they needed without compromising their ownership or vision. A bold change in the line of products from home fragrances to beauty and perfume products has Pacifica on a growth path to more than double revenue over a five-year span.

Since 2010, Pacifica has consistently added employees, ending 2013 with 110 employees and a 33 percent increase in sales over 2012.

Billy Taylor and Brook Harvey-Taylor are SBA's *2014 Small Business Persons of the Year.*

EXECUTIVE SUMMARY

The U.S. Small Business Administration's efforts to assist entrepreneurs and small business owners are critical to a healthy economy. Small businesses play a critical role in job creation and retention. Over the last two decades, small and new businesses have been responsible for creating two out of every three net new jobs, and today over half of all working Americans own or work for one of America's 28.0 million small businesses.

The SBA is committed to ensuring that America's small businesses have the access and opportunities they need to start and grow their operations and create new jobs. These tools include access to capital; opportunities in federal contracting; access to entrepreneurial advising, mentoring, and training assistance; and disaster assistance for business owners, homeowners, and renters.

Throughout FY 2014, the SBA relied on the three strategic goals identified in its *FY 2014-2018 Strategic Plan* to guide the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals and Federal Cross-Agency Priority (CAP) Goals. In-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be released in February 2015.

Financial Results

For FY 2014, SBA's total budgetary resources used for staffing, operations, and subsidy costs were $3.0 billion as well as $7.8 billion in nonbudgetary resources for loan financing used to purchase guarantied loans in default and to make direct loans. SBA's guarantied portion of the outstanding loan principal rose 5.6 percent in FY 2014, to $83.5 billion. New guaranties disbursed by SBA participating banks during FY 2014 were $18.0 billion, a 1.7 percent increase this year that contributed to the 5.6 percent increase in outstanding guaranties. Purchases of defaulted guarantied loans dropped again, falling from $2.0 billion last year to $1.4 billion this year. This encouraging trend is expected to continue in upcoming years as the nation moves further into economic recovery. The loan receivables portion of the SBA credit program portfolio continued to decline from $7.5 billion to $6.9 billion in FY 2014. The drop in loan receivables was caused by the decrease in purchases of defaulted guaranties, the liquidation and charge-off of existing defaulted guaranties, a decrease in new disaster direct loan disbursements, as well as collections on existing disaster loans.

Performance Results

In FY 2014, SBA's 7(a) loan program had its second highest year of approvals, and together with the 504 loan program, supported nearly $29.0 billion in lending. The 504 loan program declined from FY 2013 but the counterbalancing growth in the 7(a) program led the SBA to a net increase of gross approvals over the prior year. Overall, the SBA approved nearly 58,000 loans that supported more than 51,000 companies.

FY 2014 reflected a fifth consecutive year of growth for small business investment companies, a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small and typically high-growth businesses. About $5.5 billion was invested in 1,085 small businesses. Capital deployments increased 60 percent year-over-year and have more than tripled in six years.

The SBA continues to work with agencies across the government to expand small business contracting opportunities. From the beginning of FY 2011 through FY 2013, small businesses accessed more than $264.5 billion dollars in federal contracts. (FY 2014 contracting numbers continue to be collected and certified.)

The SBA provides mentoring, business advice, and training assistance to more than 1.2 million entrepreneurs and small businesses each year. In FY 2014, these efforts helped entrepreneurs start over 14,000 businesses, and create and/or retain more than 70,000 jobs.

Disaster loan applications and approvals declined compared to the prior year, which experienced the third largest disaster, Hurricane Sandy. In FY 2014, the Agency worked on 192 active disaster declarations and approved over 6,000 disasters totaling $332 million.

Agency Priority Goals

The Government Performance and Results Modernization Act of 2010 (GPRA) requires federal agencies to establish a set of two-year Agency Priority Goals (APGs) that reflect the highest priorities of agency leadership. The SBA has established four outcome-focused APGs.

- **Increase active lender participation.** *Expand access to capital by adding 325 new and returning lenders to SBA's flagship 7(a) loan program each year in FY 2014-2015.* The SBA increased small business access to capital by adding new and returning lenders to the 7(a) program. While the Agency missed its FY 2014 target by 5 percent, 308 new lenders provided nearly $317 million in new loans to small businesses.
- **Maximize small business participation in government contracting.** *Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.* FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. The Agency did exceed its FY 2013 target with the federal government making 23.4 percent of contracting dollars available to small businesses.
- **Expand the base of lenders for small business exporters.** *Expand small business access to export financing by increasing the number of lenders to providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.* The SBA met 98 percent (513 lenders) of its FY 2014 export lender goal, and the SBA met 98 percent (1,392 small businesses assisted) of its small business assisted goal.
- **Increase the disaster loan application rate.** *By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).* The SBA increased its application return rate to ensure that disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently. This year, the SBA had a return rate of 69 percent due to process improvements and improving customer service touch points.

Cross-Agency Priority Goals

The SBA also participates in many of the government-wide Federal Cross-Agency Priority (CAP) goals. The CAP goals are Presidential priorities, and are complemented by other cross-agency coordination and goal-setting efforts. A brief description of the CAP goals to which the SBA contributes follows.

- **Job Creating Investment:** This goal aims to improve federal investment tools and resources, while also increasing interagency coordination to encourage foreign direct investment, spurring job growth.
- **Cybersecurity:** Under this goal, agencies must improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware.
- **Customer Service:** This goal aims to deliver world-class customer service to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** This goal aims to improve outcomes and customer satisfaction with federal services through smarter IT delivery and stronger agency accountability for success.
- **Strategic Sourcing:** Agencies will expand the use of high-quality, high-value strategic sourcing solutions through this goal in order to improve the government's buying power and reduce contract duplication.
- **Benchmark and Improve Mission-Support Operations:** This goal will improve administrative efficiency and increase the adoption of effective management practices by establishing cost and quality benchmarks of mission-support operations and giving agency decision-makers better data to compare options, allocate resources, and improve processes.
- **Open Data:** Through this goal, agencies will fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of this data.
- **Lab to Market:** This goal aims to increase the economic impact of federally funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** This goal aims to innovate by unlocking the full potential of the workforce of today and building the workforce needed for tomorrow.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2011	FY 2012	FY 2013	FY 2014
Total Portfolio [1]	**Outstanding Principal Balance**	**$ 99,704**	**$ 104,443**	**$ 109,758**	**$ 114,450**
Capital [2]					
7(a) Loans	Dollars of Gross Loans Approved	$ 19,638	$ 15,153	$ 17,868	$ 19,191
504 Loans	Dollars of Gross Loans Approved	$ 4,845	$ 6,712	$ 5,227	$ 4,199
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 47	$ 45	$ 53	$ 54
Surety Bond	Dollars of Bid and Final Bonds Guaranteed	$ 3,660	$ 3,920	$ 6,150	$ 6,413
Contracting [3]					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 91,468	$ 89,923	$ 83,143	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 9,915	$ 8,140	$ 6,245	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 32,412	$ 32,334	$ 30,616	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 16,807	$ 16,180	$ 15,365	N/A
Service-Disabled Veteran-Owned Small Businesses	Dollars of Contracts to Awarded to Service-Disabled Veteran-Owned Small Businesses	$ 11,206	$ 12,256	$ 12,023	N/A
Advising, Mentoring, and Training [4]					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	557,698	543,512	532,377	485,013
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	138,923	136,951	133,765	140,039
SCORE	Number of Clients Mentored and Trained	356,837	458,773	345,902	442,374
SBA Learning Center	Number of Clients Trained Online	234,000	220,596	150,355	182,000
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	63,908	88,614	73,062	75,393
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 925	$ 926	$ 1,191	$ 1,341
High-growth Small Businesses					
SBIC	Dollars of SBA Debenture Leverage Committed to SBICs	$ 1,827	$ 1,924	$ 2,156	$ 2,549
	Dollars of SBIC Debenture Capital to Small Businesses	$ 2,589	$ 2,950	$ 3,256	$ 5,465
Disaster					
Disaster Assistance [2] [5]	Dollars of Gross Loans Approved	$ 739	$ 690	$ 2,797	$ 332

(1) The total portfolio consists of guarantied business loans outstanding, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. In previous Agency Financial Reports, the SBA has not included ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2011-2014 to include these programs in the totals.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

(3) FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. Therefore, FY 2013 numbers are reported per OMB Circular A-11.

(4) Counseling is now referred to as "advising" and "mentoring." The way these numbers are calculated has not changed. Data was pulled at November 14, 2014 for FY 2014; resource partners may input data up to 45 days after the close of the fiscal year.

(5) The significant increase in FY 2013 disaster loan approvals is attributable to Hurricane Sandy.

SBA'S HISTORY AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." SBA's headquarters is located in Washington, D.C. while its business products and services are delivered with the help of field personnel and a vast network of private sector and non-profit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA's *FY 2014-2018 Strategic Plan*:

STRATEGIC GOAL ONE — Growing businesses and creating jobs

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504, and Microloan programs through an extensive lending network and bonding through the Surety Bond Guarantee program.

The Office of Disaster Assistance provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster loan program is the only form of SBA assistance that is not limited to small businesses.

The Office of Entrepreneurial Development provides business advising, mentoring, and training assistance through its resource partner network composed of small business development centers, women's business centers, and SCORE, as well as through the Regional Innovation Clusters, Entrepreneurship Education, SBA Learning Center, and Emerging Leaders programs. In addition, SBA's district offices support coordination between SBA resource partners and local small business communities.

The Office of Government Contracting and Business Development provides assistance to small businesses competing for federal contracting opportunities through the government-wide prime and subcontracting programs. This includes HUBZone, 8(a) business development, 7(j) technical assistance, women-owned, and veteran-owned small businesses. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

The Office of International Trade enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the interests of small business are considered and reflected in trade negotiations, and supporting and contributing to the U.S. government's international commercial and economic agenda.

The Office of Investments and Innovation assists high-growth small businesses through the Small Business Investment Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

STRATEGIC GOAL TWO — Serving as the voice for small business

Strategic Goal Two focuses on underserved communities and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all defined under Strategic Goal One) each have programs that support underserved communities.

The Office of Communications and Public Liaison communicates the Agency's programs and priorities to small businesses, their partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high quality marketing materials, organizing events to gain feedback from small businesses, and coordinating strategic partnerships.

The Office of Faith-Based and Neighborhood Partnerships works to expand the reach and impact of SBA's programs in underserved communities and promote economic growth and community development through outreach, programming, coordination, and strategic partnerships.

The Office of Field Operations works as the front-line operating team for the SBA. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices located in each state and territory.

The Office of the National Ombudsman works with all federal agencies that regulate small businesses to provide a means for businesses to comment on Agency enforcement activity, including audits, on-site inspections, compliance assistance efforts, or other enforcement activity. The office also maintains a five-member Regulatory Fairness Board in each of SBA's ten regions to hold public hearings on small business concerns.

The Office of Native American Affairs ensures that American Indians, Native Alaskans, and Native Hawaiians seeking to create, develop, and expand small businesses have full access to the necessary business development and expansion tools available through the Agency's entrepreneurial development, lending, and procurement programs. The office works in coordination with other SBA offices to assist in formulating policies and engaging in outreach, technical assistance, and education opportunities with other federal agencies.

The Office of Veterans Business Development ensures availability, applicability, and usability of all Administration small business programs for veterans, service-disabled veterans, Reserve Component members, and their dependents or survivors. The office accomplishes its work through veterans business outreach centers, the Boots to Business program, Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal and non-profit agencies.

The National Women's Business Council is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and SBA Administrator on issues of economic importance to women business owners.

STRATEGIC GOAL THREE — Building an SBA that meets the needs of today's and tomorrow's small businesses

SBA's management offices primarily support Strategic Goal Three. Each program office, discussed in Strategic Goals 1 and 2, maintains a key role ensuring that the Agency mitigates risk in its programs.

The Office of the Chief Information Officer provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

The Office of Credit Risk Management focuses on mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

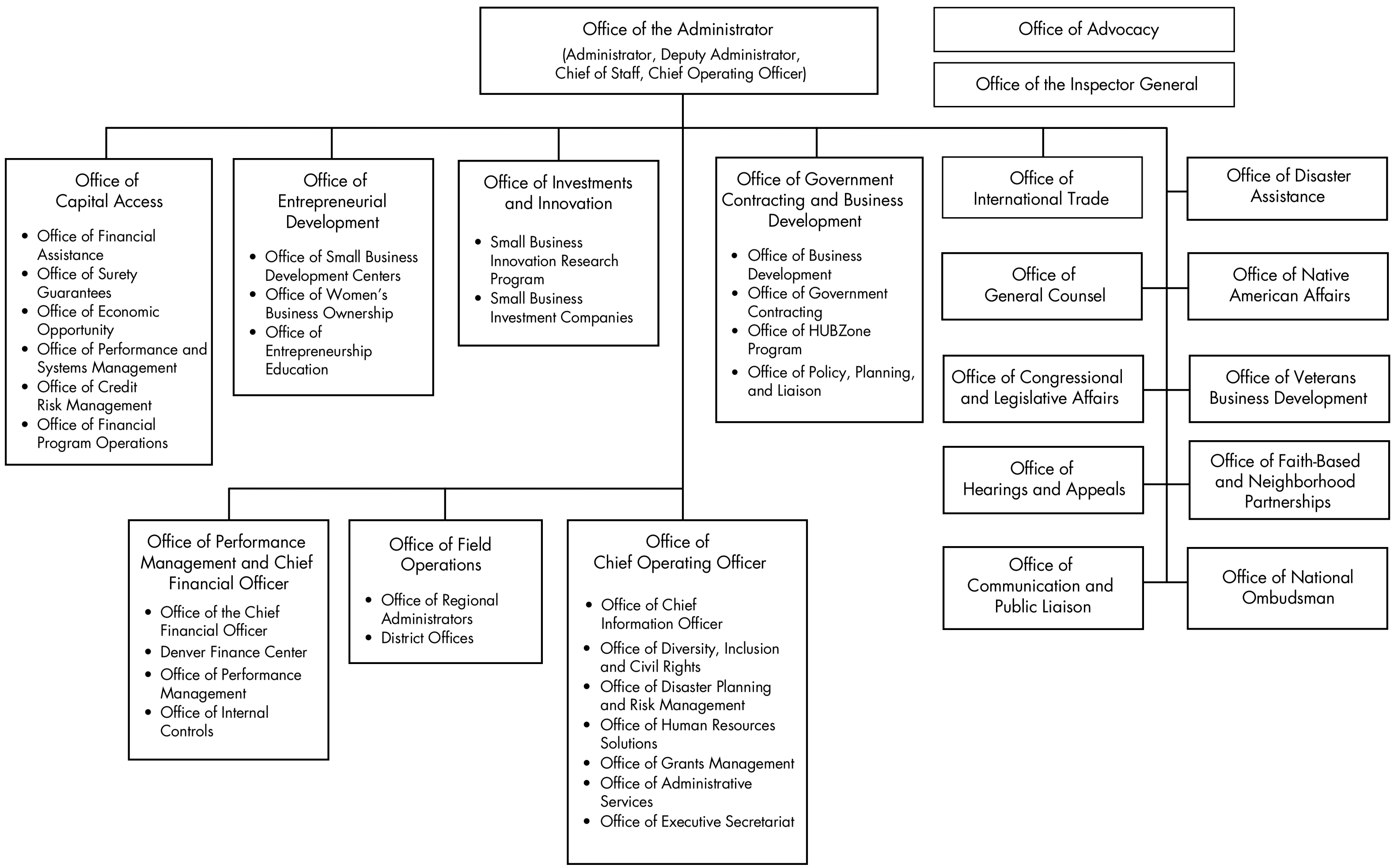
The Office of Diversity, Inclusion, and Civil Rights serves a diverse workforce by maintaining an inclusive culture and ensuring equal access and equitable treatment regarding employment and entrepreneurial endeavors.

The Office of Human Resources Solutions provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

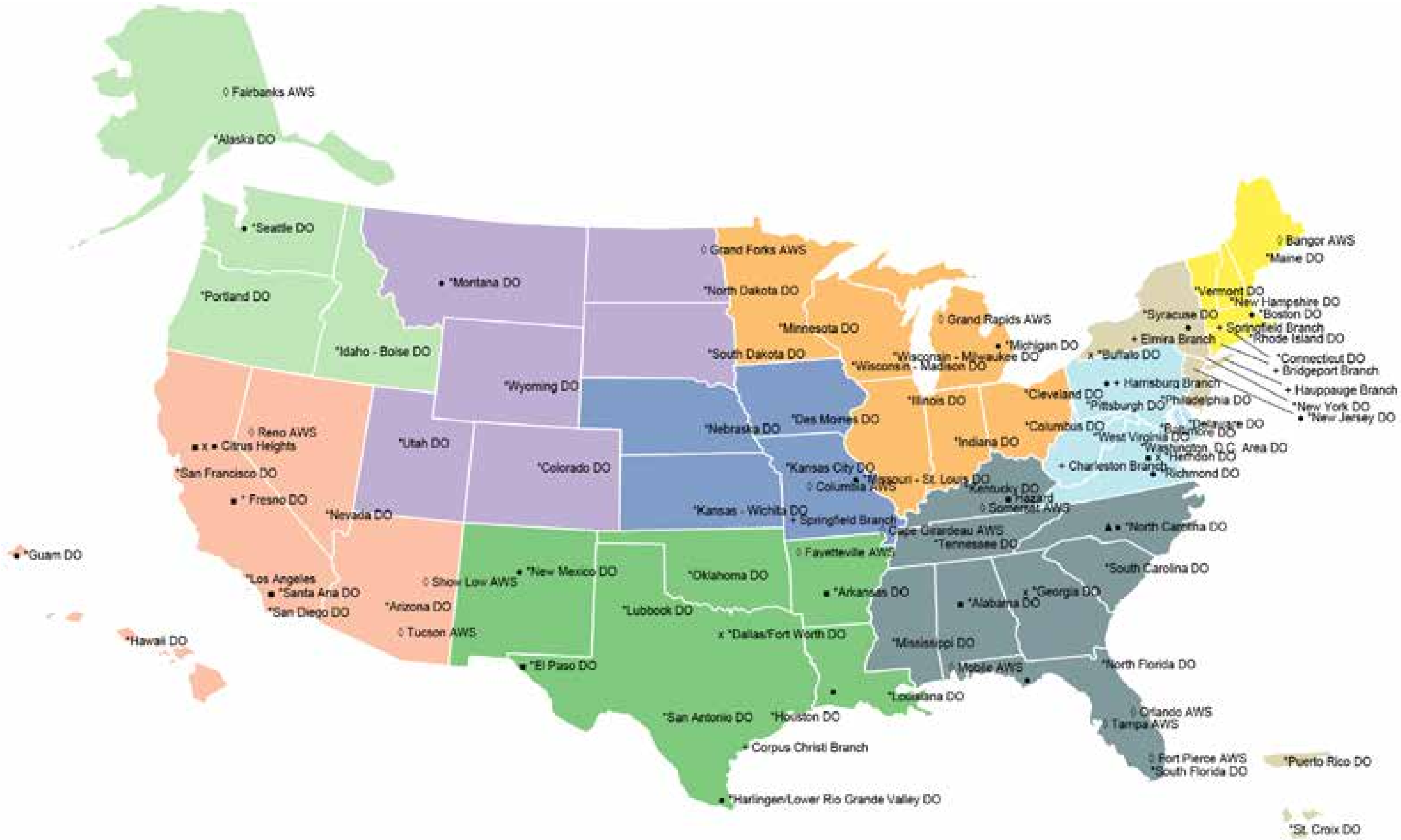
The Office of Performance Management and Chief Financial Officer provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs, Office of General Counsel, and Office of Hearings and Appeals.*

SBA ORGANIZATION CHART



SBA REGIONS AND FIELD OFFICES



	Location Type
■	Processing Center
●	Veterans Center
▲	Call Center
x	Disaster Center
*	District Office (DO)
+	Branch Office
◊	Alternative Work Site (AWS)

Region		Regional Office
Region	New England	Boston
Region	Atlantic	New York
Region	Mid-Atlantic	Philadeplhia
Region	Southeast	Atlanta
Region	Great Lakes	Chicago
Region	South Central	Dallas
Region	Great Plains	Kansas City
Region	Rocky Mountains	Denver
Region	Pacific	Los Angeles
Region	Pacific Northwest	Seattle

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2014 performance data, including the four FY 2014-2015 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. While the Agency Priority Goals are two-year goals, the FY 2014 results are measured against FY 2014 targets.

The presentation of the performance data and analysis is by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Note that not all strategic objectives are highlighted in the analysis. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2016 Congressional Budget Justification and FY 2014 Annual Performance Report to be published in February 2015.

STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

Priority Goal: Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program in FY 2014 and FY 2015.

Performance Analysis: New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the quantity of loans approved and small businesses assisted. Attaining a high volume of new and returning lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 95 percent of its FY 2014 target (308 new lenders) (see **Chart I**). These new and returning lenders made 684 loans totaling $317.0 million. The number of new and returning lenders recruited slowed in the fourth quarter. However, the lending community has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements.

Performance Goal: Support 674,850 jobs through capital assistance programs in FY 2014.

Performance Analysis: The number of jobs supported is an important outcome measure of the effectiveness of SBA financing. The measure tracks the number of jobs supported through the 7(a), 504, Microloan, and Surety Bond Guarantee programs. In FY 2014, the SBA supported 615,364 jobs, which is 9 percent below the target (see **Chart II**). Part of the decline is attributable to fewer 504 loans. While the Agency did not meet its target, continued streamlining of the loan process and ensuring effective

CHART I CUMULATIVE NUMBER OF 7(a) NEW OR RETURNING LENDERS

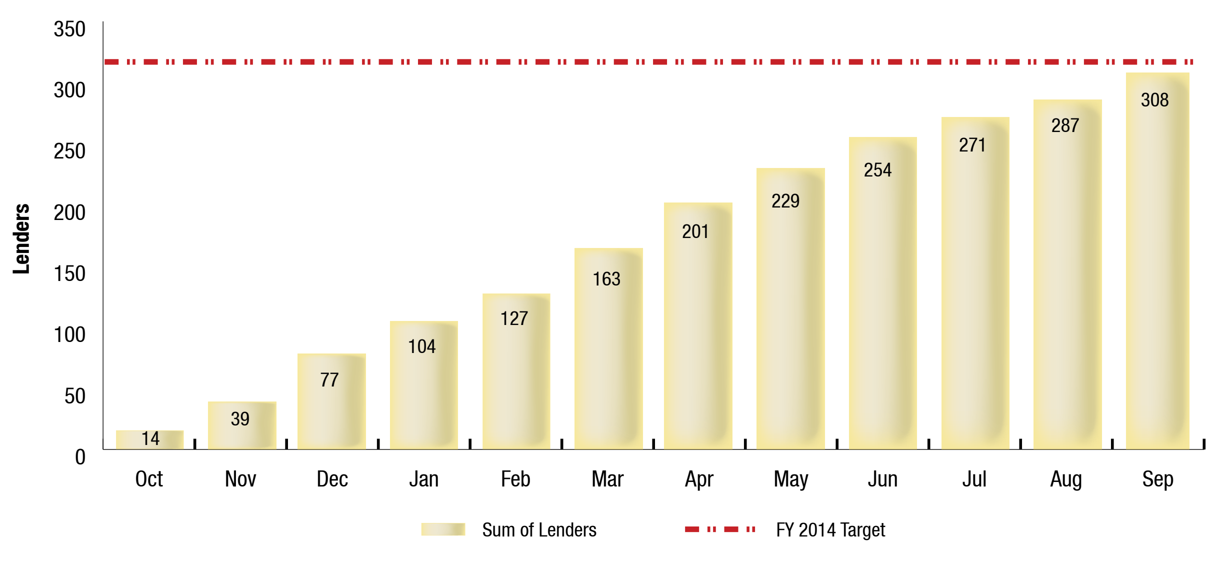
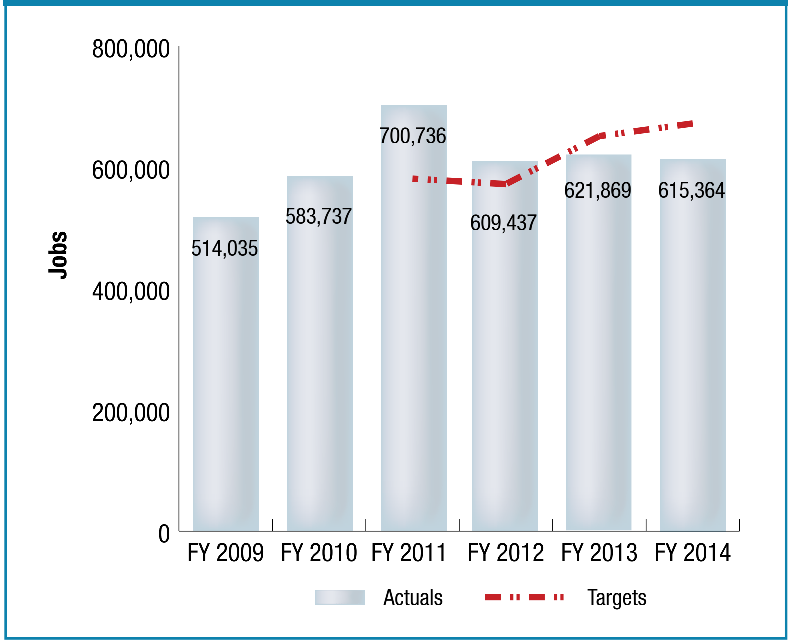


CHART II 7(a), 504, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED



certified development companies should have a positive impact on future results.

STRATEGIC OBJECTIVE 1.2: Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.

Priority Goal: Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.

Performance Analysis: Small businesses receive a 23 percent set-aside of federal government prime contracting dollars, including 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**). In FY 2013, the federal government surpassed its prime contracting goal; small businesses were awarded $83.0 billion in contracting dollars. The goal for service-disabled veterans was surpassed (FY 2013 result was 3.4 percent) for the second time, and small disadvantaged businesses exceeded the goal (FY 2013 result was 8.6 percent) due in part to the successful Mentor-Protégé program that fosters relationships between successful firms and disadvantaged small businesses. The removal of statutory limitations on the dollar amount of contracts that can be set aside for women-owned small businesses contributed to the increase of women-owned small business contracting dollars; the result was an increase from 4 percent in FY 2012 to 4.3 percent in FY 2013. Although HUBZone continues to recruit new firms, the portfolio has not recovered from the loss of firms due to re-designation of areas from the 2010 census (see **Chart IV**). FY 2014 contracting numbers will continue to be collected and certified through the third quarter of FY 2015. Therefore, FY 2013 numbers are reported per OMB Circular A-11.

CHART III PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES

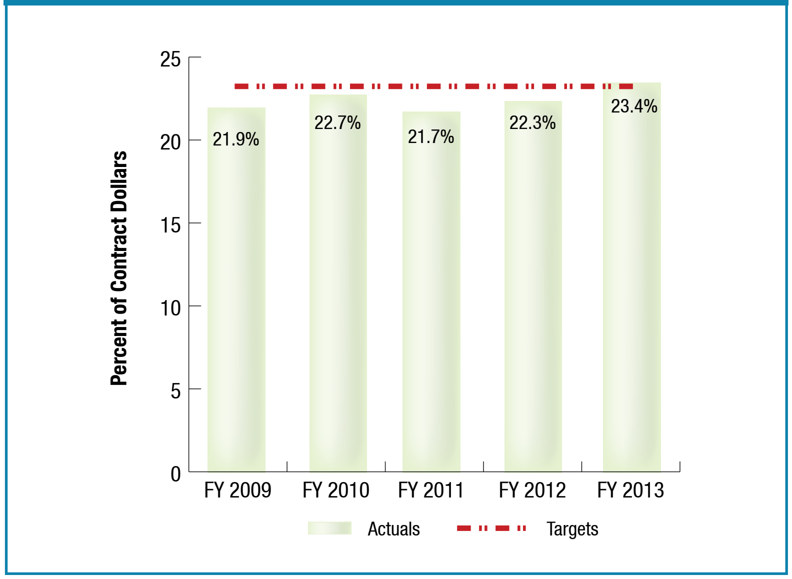
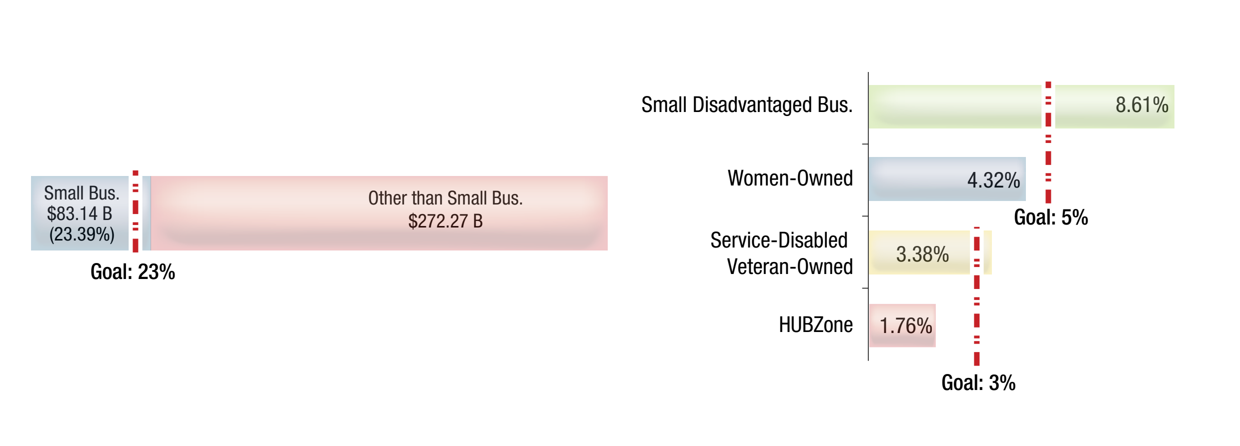


CHART IV FY 2013 SMALL BUSINESS FEDERAL CONTRACT PARTICIPATION



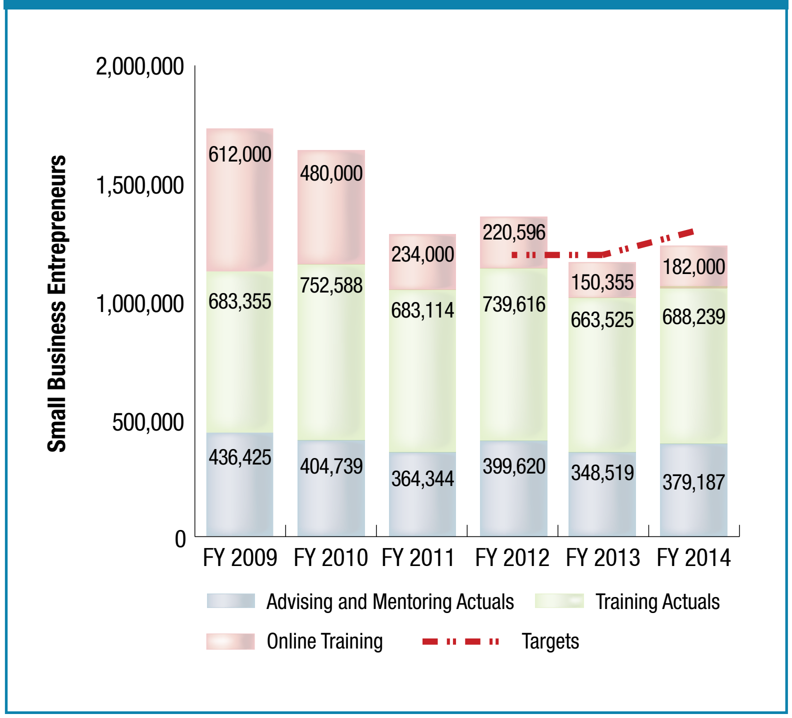
STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems through a variety of strategic partnerships to provide tailored training, mentoring, and counseling services that support entrepreneurs during every phase of their business growth.

Performance Goal: Reach 1.2 million clients with online and in-person advising, mentoring, and training in FY 2014.

To improve performance, the SBA Online Learning Center was revamped by creating specialized content for women, veteran, encore, and youth entrepreneurs along with translation of popular courses to Spanish. Also, the SBDC program expanded outreach for exporters and veterans, the WBC program implemented a streamlined grant process to allow greater time for delivering services, and the SCORE program began offering assistance online.

Performance Analysis: The SBA accomplished 96 percent of its performance target for advising, mentoring, and training assistance (see **Chart V**) and exceed its advising and mentoring target by 1.7 percent. Data was pulled at November 14, 2014 for FY 2014; resource partners may input data up to 45 days after the close of the fiscal year. While the SCORE and Women's Business Center (WBC) programs experienced a 28 and 5 percent increase respectively in the number of clients served from FY 2013 to FY 2014, the Small Business Development Center (SBDC) program had a 9 percent decrease in the number of clients advised and trained. While the SCORE program relies on volunteers to provide assistance, the SBDC and WBC programs have been more impacted by stagnant budgets and sequestration.

CHART V SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED



STRATEGIC OBJECTIVE 1.4: Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

Priority Goal: Expand small business access to export financing by increasing the number of lenders providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA accomplished 98 percent (513 lenders) of its FY 2014 export lender target and 98 percent (1,392 small businesses) of its small businesses assisted target (see **Charts VI and VII**). Throughout the year, these numbers continued to track upwards as anticipated. Although existing lenders financed additional loans to exporters, the recruitment rate of new lenders in the fourth quarter de-

CHART VI CUMULATIVE NUMBER OF SMALL BUSINESSES ASSISTED

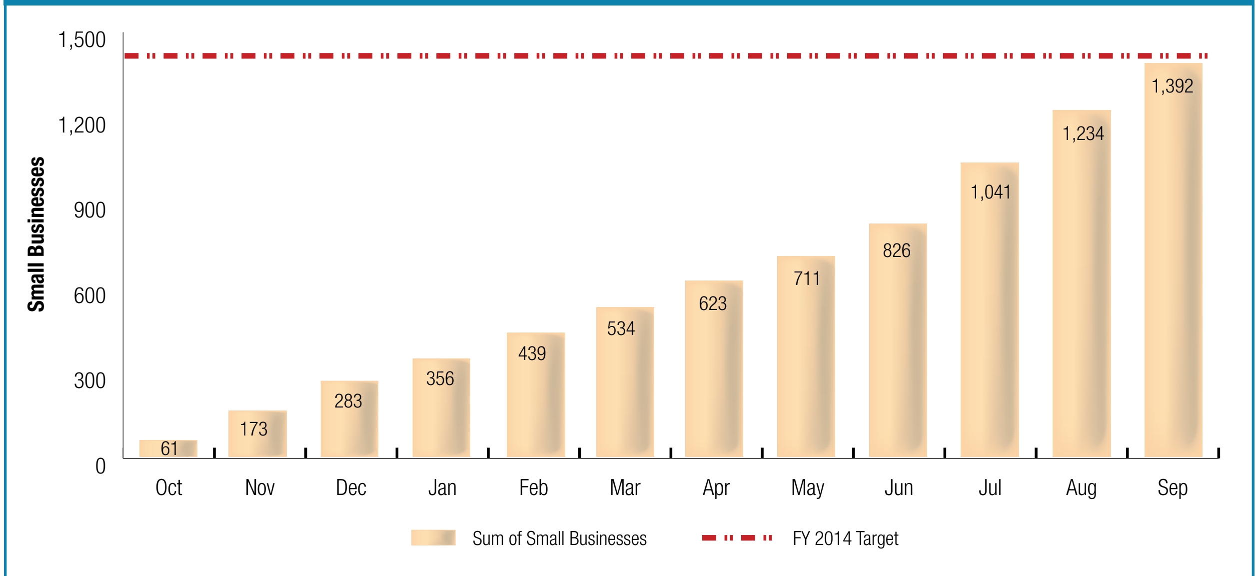
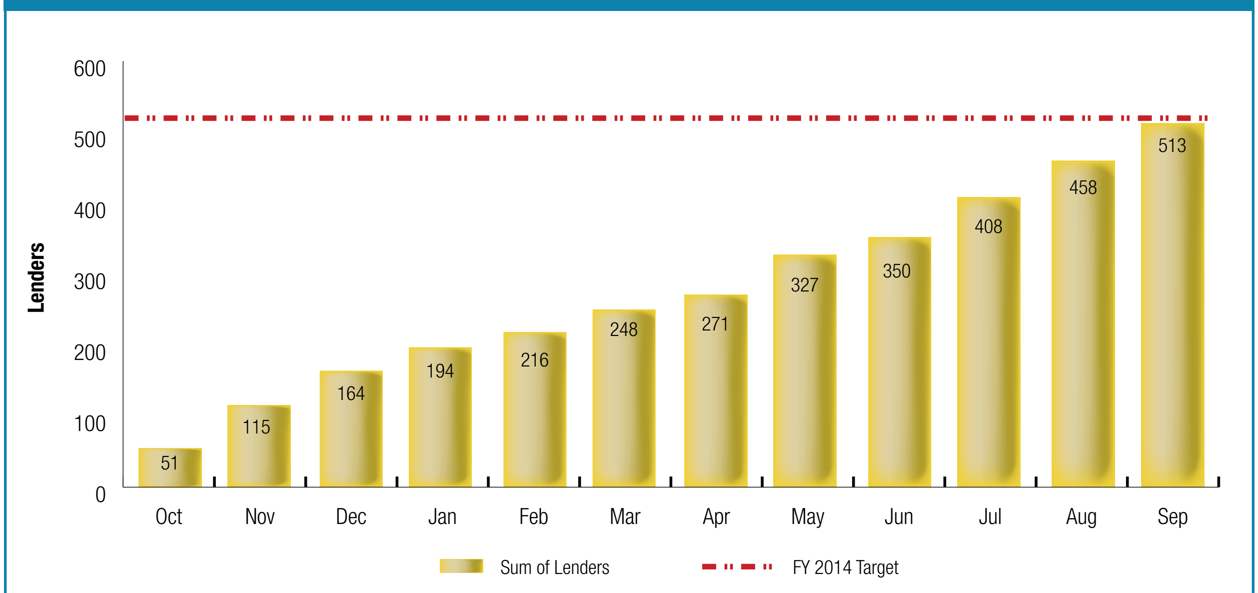


CHART VII CUMULATIVE NUMBER OF EXPORT LENDERS



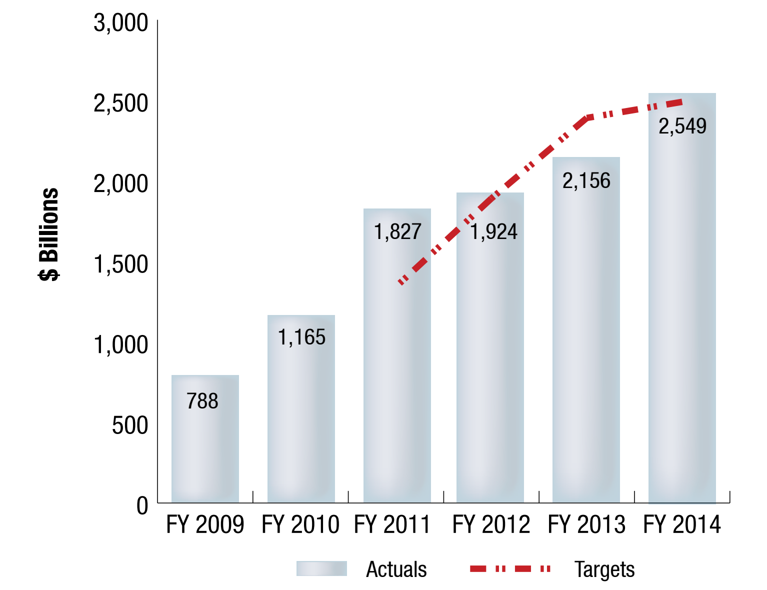
clined. The primary challenge is related to export counselor staffing shortages across the country at U.S Export Assistance Centers.

STRATEGIC OBJECTIVE 1.5: Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

Performance Goal: Issue $2.5 billion in debenture leverage to small business investment companies (SBICs) in FY 2014.

Performance Analysis: SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2014, SBICs were able to raise the private capital required to receive federal leverage at an earlier than expected rate. This caused an increase of 2 percent over the expected financing target of $2.5 billion (see **Chart VIII**). At the same time that debenture leverage was increasing, the SBA continued to license 30 new SBICs with an average licensing time of 7.6 months.

CHART VIII CUMULATIVE SBIC DEBENTURE LEVERAGE COMMITTED



STRATEGIC OBJECTIVE 1.6: Ensure that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

Priority Goal: By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).

Performance Analysis: Increasing the application return rate also ensures that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation. As a result of implementing a new process for issuing applications to disaster survivors, the SBA exceeded its target by 37 percent this year (see **Chart IX**). Each quarter, the SBA successfully increased the disaster loan application return rate, going from 24 percent in FY 2013 to 69 percent in FY 2014. SBA's new process for issuing applications in Stafford Act declarations has not only helped to increase the application return rate but has improved customer service by adding multiple points for disaster survivors to apply for an SBA loan. The SBA also implemented two new regulatory changes (increased collateral requirement, and modified loan approval process using credit scores) which resulted from SBA's membership in the Hurricane Sandy Rebuilding Task Force. These efforts have helped increase the speed of disaster loans and improved customer service.

Performance Goal: Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2014.

Performance Analysis: The SBA tracks customer satisfaction through an annual survey that uses the American Customer Satisfaction Index. The index synthesizes key points in the loan process, including the application, staff, final decision, and closing of the loan. The SBA had a customer satisfaction rate of 80 percent this year – above the 71 percent target (see **Chart X**). The high satisfaction rate is attributable in part to the increased speed of processing disaster applications. For example, the electronic loan application rate increased to 79 percent in FY 2014, tripling the rate from FY 2011.

CHART IX RETURN RATE FOR DISASTER SURVIVOR APPLICATIONS

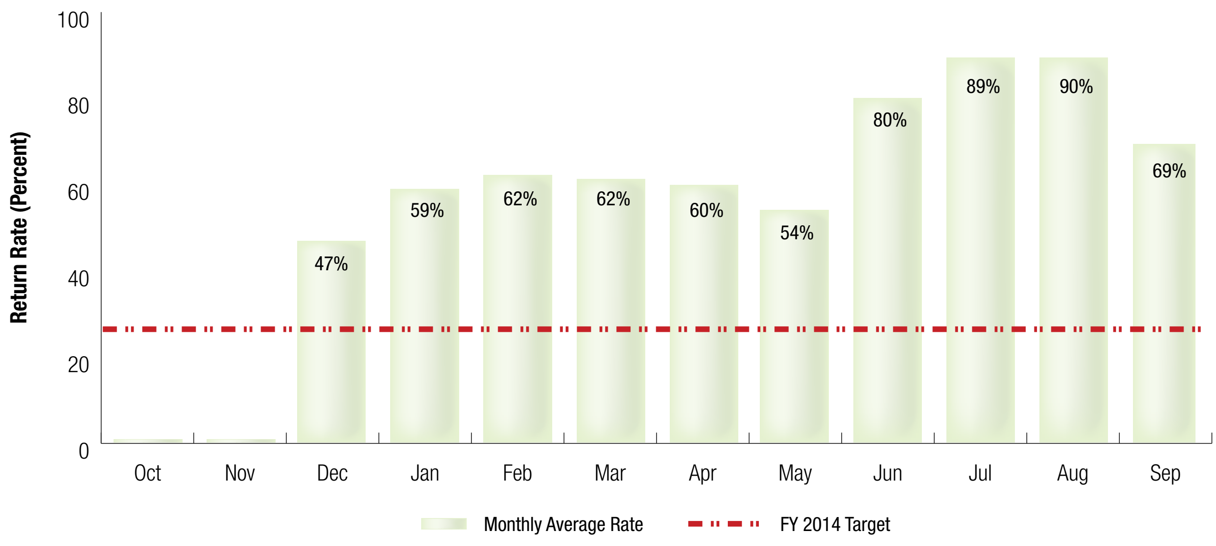
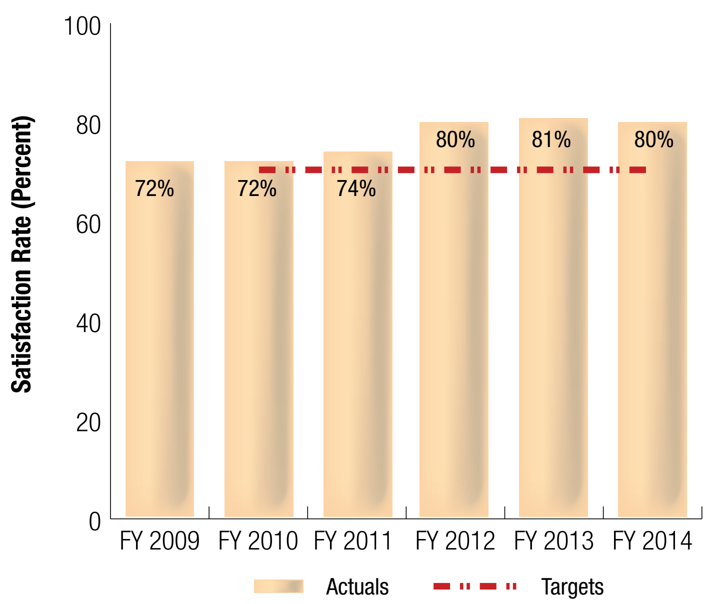


CHART X CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS



STRATEGIC OBJECTIVE 2.1: Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.

Performance Goal: Assist 31,550 underserved small businesses through capital assistance programs and 14,475 underserved small businesses through contracting programs.

Performance Analysis: Underserved communities – including women, low-income, minority, and veteran entrepreneurs – often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504, and Microloans, the SBA assisted 38,547 underserved small businesses – exceeding the FY 2013 result by 15 percent (see **Chart XI**). The elimination of the fees on small dollar loans ($150,000 or less) has attributed to the increase in number of small businesses assisted. Also, the streamlined application process that uses credit scores instead of a personal cash flow history analysis has greatly incentivized new lenders and made the loan application process more efficient.

For contracting programs, including 8(a) and HUBZone, the SBA assisted 13,029 underserved small businesses (see **Chart XII**). While the results are similar to FY 2013, the decline of 38 percent from FY 2010 to FY 2014 is due to redesignation of HUBZone areas from the 2010 census. The SBA continues to recruit new firms and conduct outreach and training to expand the HUBZone portfolio. Proposed regulations to expand the successful Mentor-Protégé program under the 8(a) program to other underserved markets will support more small businesses in FY 2015.

CHART XI SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 7(a), 504, AND MICROLOANS

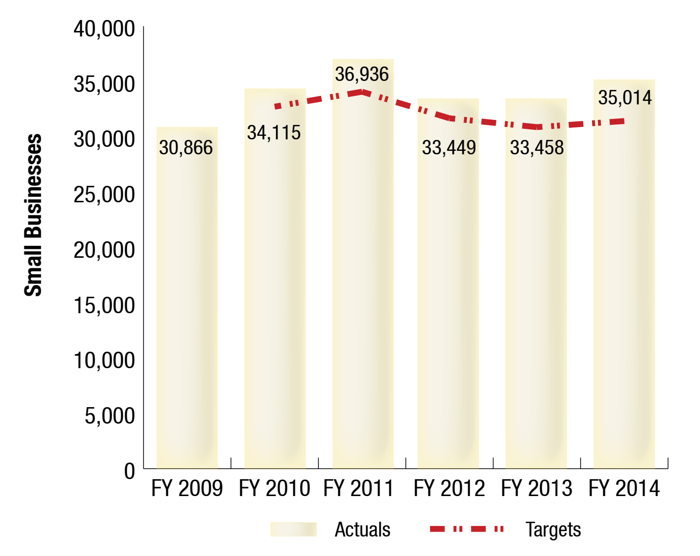
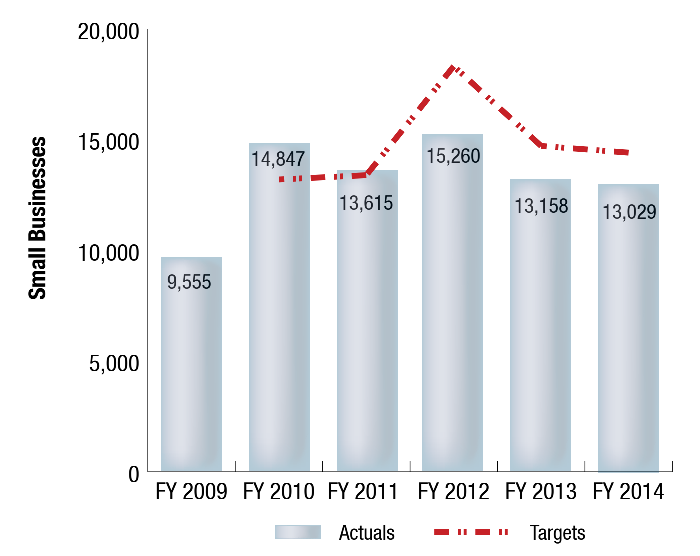


CHART XII SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 8(a) AND HUBZONES

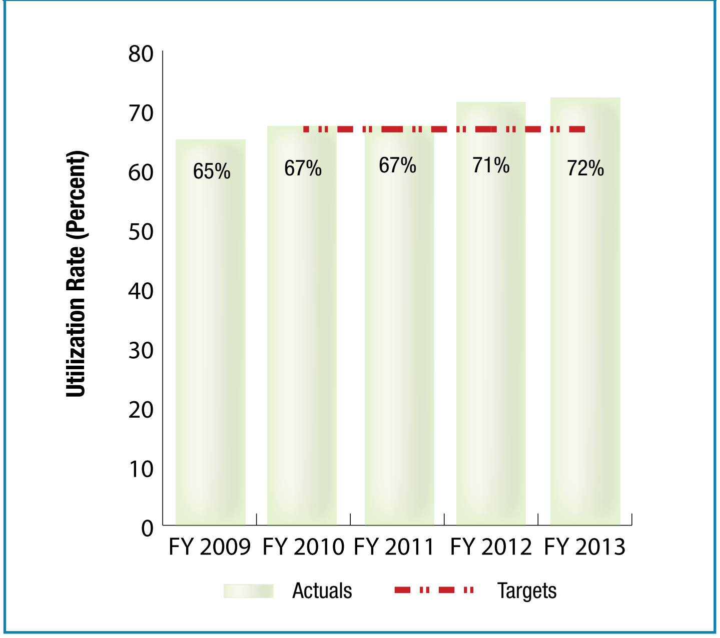


STRATEGIC OBJECTIVE 3.1: Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

Performance Goal: Award 68 percent of SBA contracts to small businesses in FY 2014.

Performance Analysis: The SBA met its small business utilization goal by awarding 72 percent of contracts (in FY 2013) totalling $76.8 million to small businesses (see **Chart XIII**) and far exceeded its sub-goals for women-owned, small disadvantaged, and small service-disabled veteran-owned businesses. Although final performance numbers are not yet certified or official for FY 2014, the SBA reached its small business utilization goal of 68 percent, as well as each of the small business utilization rate sub-goals for contract awards. The SBA was able to exceed the small business utilization rate by maintaining a default Agency position of awarding contracts to small business concerns and only resorting to large vendors when all small business options were exhausted.

CHART XIII SBA SMALL BUSINESS UTILIZATION RATE

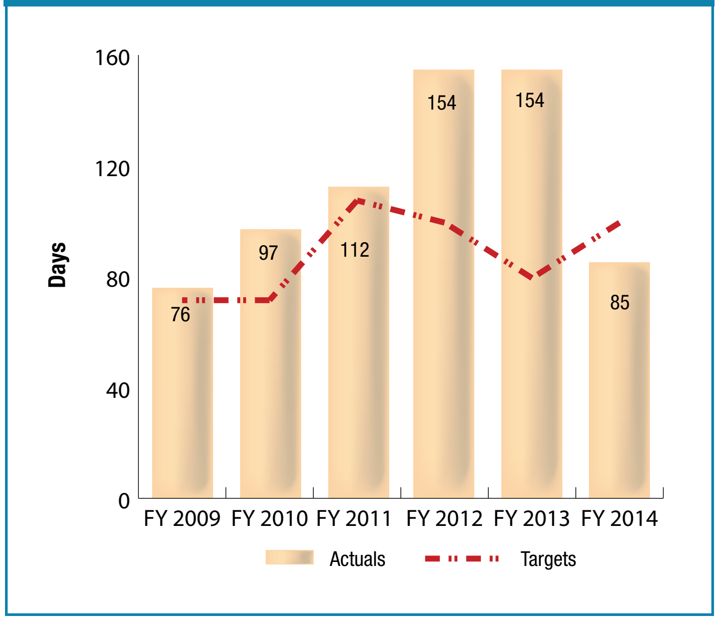


STRATEGIC OBJECTIVE 3.2: Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

Performance Goal: Ensure that the average time to hire will be less than 100 days in FY 2014.

Performance Analysis: In FY 2014, the SBA lowered its average number of days to hire by 45 percent from FY 2013 and exceeded its FY 2014 target of 100 days by 15 percent (see **Chart XIV**). Fewer days to hire ensures SBA's competitiveness in recruitment efforts and ability to hire highly qualified individuals. Achievement of this goal is due to efforts initiated under "HR Stat 2.0." The initiative includes strategic redesign efforts such as reviewing existing business processes, determining future workforce needs, and performing position description updates to streamline recruitment decisions for both managers and staff in the Office of Human Resources Solutions.

CHART XIV AVERAGE NUMBER OF DAYS TO HIRE



Operational Portfolio Analysis and Future Projections

The Small Business Administration is the taxpayers' custodian of a small business loan guaranties and direct loans portfolio of $114.5 billion. During FY 2014, the portfolio grew by $4.7 billion, or 4.3 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2014 was significantly greater than the $4.7 billion reflected in the portfolio growth. The Agency's 7(a) portfolio expanded by $4.5 billion, and thus accounted for the vast majority of the overall portfolio's growth. SBA's 504 portfolio expanded by $0.3 billion, and its SBIC portfolio grew by $0.5 billion. The Agency's Disaster and All Other portfolios declined $0.4 billion and $0.2 billion, respectively. From FY 2008 through FY 2014, nearly all (99 percent), of the portfolio's cumulative $26.3 billion growth came from 7(a), 504 and SBIC programs (see **Chart XV**).

New Guarantied Loans

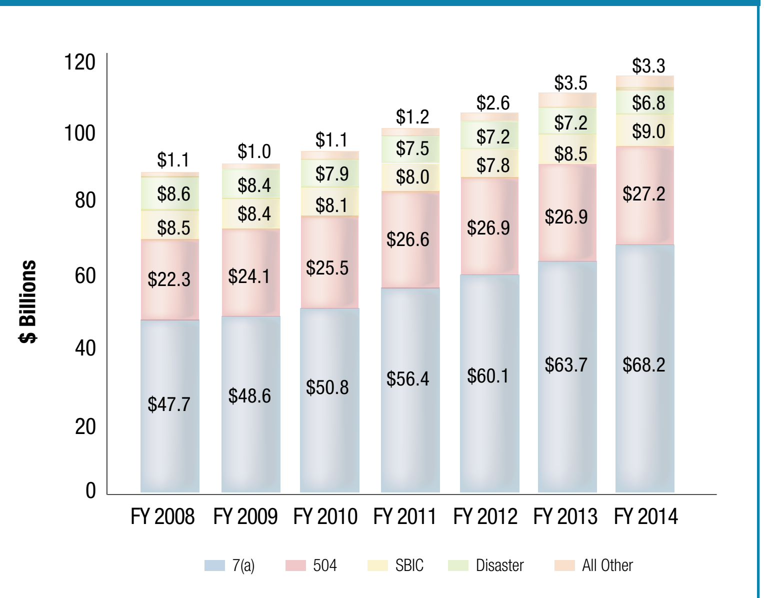
Three primary factors contributed to the loan guaranty portfolio's recent growth in outstanding balances:

Continuous Growth in the Economy – Real Gross Domestic Production (RGDP) in the United States grew at an average annual rate of 2.2 percent during 2012-2014. The first half of 2014 experienced a volatile but still positive economic environment, with first quarter RGDP posting a negative 2.1 percent annual growth rate, and second quarter RGDP posting a 4.6 percent annual growth rate. This rise in RGDP increased revenues and profits at all firms, small and large, which in turn increased their demand for credit.

Increase in Business Financial Stability – Corporate profits, reaching record highs in FY 2013, are the primary factor determining a business's overall financial strength, including its ability to incur more debt. Data indicate that gains in corporate profits have been broadly distributed across firms of all sizes, including small firms. The broadly distributed increases in corporate profits allowed existing firms to increase their borrowing.

Statutory Changes to SBA's Loan Programs – Two changes played a major role in the growth of SBA's loan portfolio. First, a series of legislative events permanently increased SBA loan limits and temporarily lowered fees and increased guaranties. These statutory changes increased SBA's capacity to supply greater credit to small businesses. The American Recovery and Reinvestment Act of 2009 temporarily lowered fees and raised guaranties for SBA's 7(a) and 504 loan programs, among many other provisions. Second, when the Recovery Act and the extensions ended in Q4 FY 2010, the Small Business Jobs Act of 2010 made permanent the higher loan limits and upwardly revised size standards that determine what qualifies as a small business. This in turn allowed the Agency to guarantee a greater dollar volume of loans which for some borrowers came in the form of larger loans (see **Chart XVI**). These same factors also contributed to the improvement in the portfolio's financial performance.

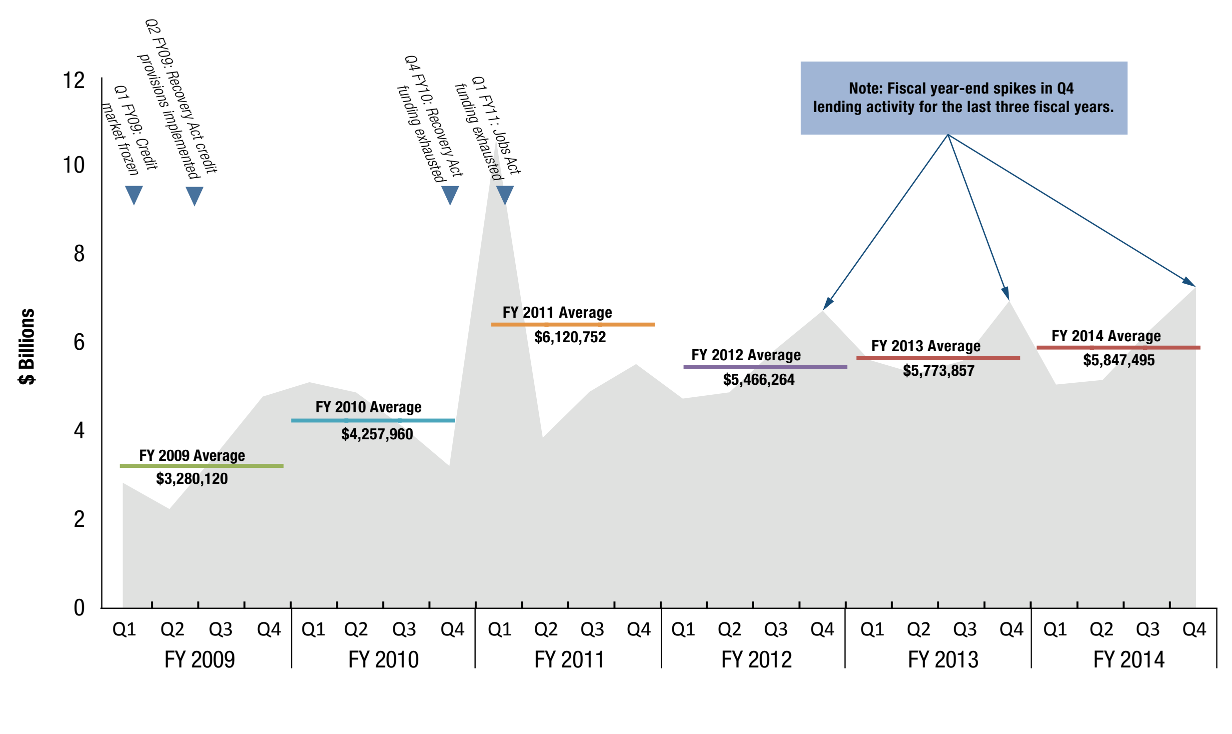
CHART XV MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



New Direct Loans

In FY 2014, SBA's gross lending approvals for the Disaster Assistance program grew $332 million due to loans extended to businesses and individuals impacted by flooding in Colorado, Florida, and Illinois. A detailed review of the portfolio indicates the high volume in FY 2006 ($11.7 billion), which included Hurricanes Katrina, Rita, and Wilma along with an additional high volume in FY 2013 ($2.8 billion), which included Hurricane Sandy, represents nearly 55 percent of the portfolio's outstanding direct disaster loans. The SBA will continue to make disaster loans an impor-

CHART XVI QUARTERLY GROSS 7(a) AND 504 LOAN APPROVALS



tant recovery tool for businesses, homeowners, and renters who survive a disaster.

Portfolio Performance – Delinquencies

Delinquency rates (borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e. the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XVII**) is a positive indicator for the financial performance of any loan portfolio.

Modest economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, off of a peak of 10 percent in October of 2009, is a sign of a generally improving environment for small businesses. For those businesses that survived the recession, the improved hiring is a signal of business expansion and an increase in the local demand for goods and services, improving businesses' ability to repay debt obligations. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the 3.9 percent recorded during January 2009 to 1 percent recorded during July 2014. Delinquency rates for the 504 program likewise declined from the 5 percent recorded during February 2010 to 1 percent recorded during July 2014.

Portfolio Performance – Charge-Offs

At the end of FY 2014, the charge-off rates for most SBA primary loan programs, both guaranty and direct, are trending downward. A reduction in the charge-off rate across the bulk of the Agency's loan vehicles is a major positive factor for its diverse portfolio. The charge-off rates for the major loan programs are profiled here.

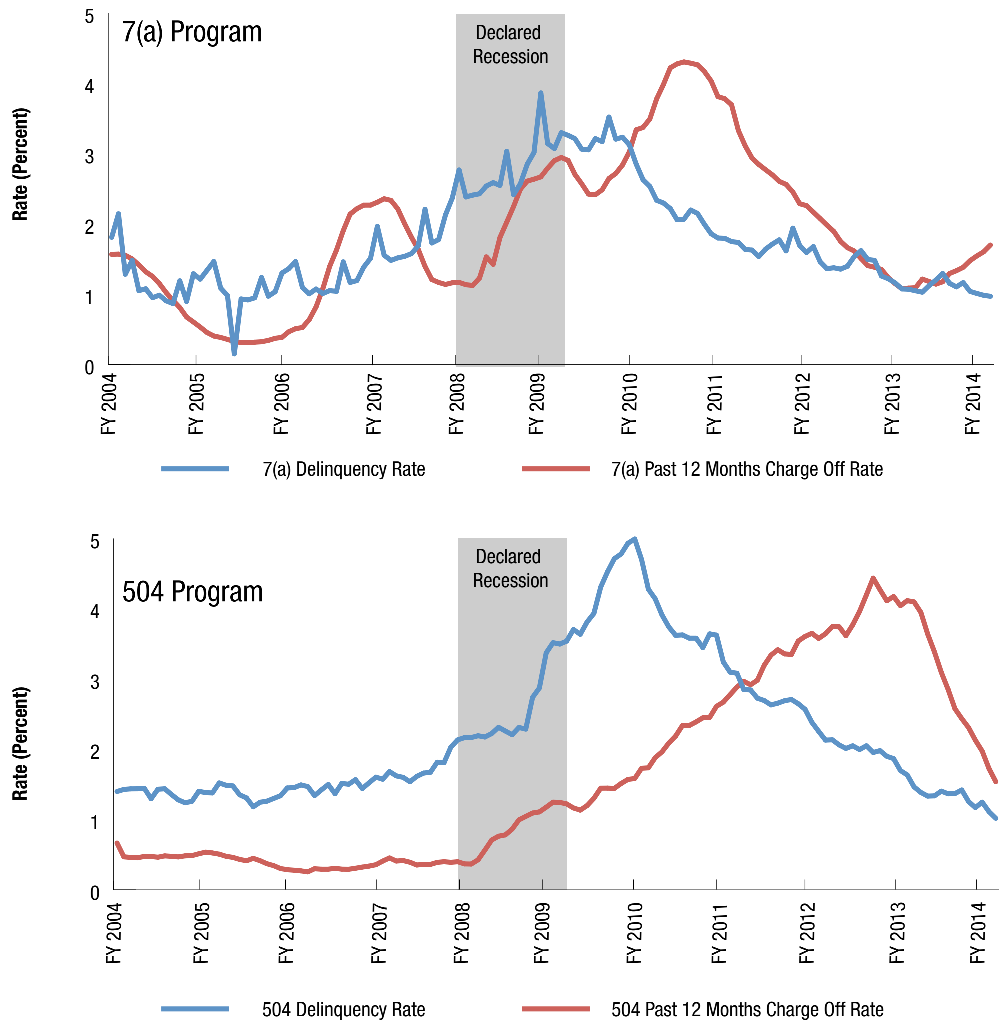
Charge-off rates for the 7(a) program experienced a pronounced decline during the FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.1 percent in the fourth quarter of 2013, but then experiencing a minor uptick thereafter, posting a 1.7 percent rate in July of 2014 (see **Chart XVII**).

The charge-off rate for the 504 program experienced a continuous rise from the latter part of FY 2008 to the early part of FY 2013, peaking at 4.4 during January 2013, but then recorded a pronounced decline thereafter, dropping to 1.5 percent during July of 2014. This is not surprising since the 504 program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of August 2014 commercial real estate prices are at about 94 percent from the peak levels recorded during 2007.

The recent charge-off rate for the SBIC debenture program has fluctuated in a narrow band, reaching a high of 1.2 percent during FY 2011 and a low of 0.26 percent during FY 2014. The charge-off rate for the SBIC participating securities program experienced a steady rise during FY 2008-FY 2013, peaking at 10 percent in FY 2013, but then registered a pronounced drop during FY 2014 to 0.26 percent.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at http://www.sba.gov/performance/loan.

CHART XVII DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR



ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results

(Dollars in Thousands)

As of September 30,		2014		2013	% Change
CONDENSED BALANCE SHEET DATA					
Fund Balance with Treasury	$	6,110,111	$	6,198,604	-1.43%
Credit Program Receivables and Related Foreclosed Property, Net		6,946,903		7,534,448	-7.80%
All Other Assets		127,237		113,118	12.48%
Total Assets	**$**	**13,184,251**	**$**	**13,846,170**	**-4.78%**
Debt		7,756,100		8,088,099	-4.10%
Downward Reestimate Payable to Treasury		1,637,283		1,116,192	46.68%
Liability for Loan Guaranties		2,044,509		2,987,263	-31.56%
All Other Liabilities		257,911		270,762	-4.75%
Total Liabilities		**11,695,803**		**12,462,316**	**-6.15%**
Unexpended Appropriations		1,692,804		1,753,736	-3.47%
Cumulative Results of Operations		(204,356)		(369,882)	44.75%
Total Net Position		**1,488,448**		**1,383,854**	**7.56%**
Total Liabilities and Net Position	**$**	**13,184,251**	**$**	**13,846,170**	**-4.78%**

For the Fiscal Year		2014		2013	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL					
Goal 1: Growing Businesses and Creating Jobs					
Loan Subsidy Cost Including Reestimates	$	(1,267,469)	$	(378,654)	-234.73%
All Other Costs Net of Revenue		648,483		766,109	-15.35%
Goal 2: Serving as the Voice for Small Business		109,488		92,964	17.77%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		25,830		5,908	337.20%
Costs Not Assigned		17,274		37,759	-54.25%
Net Cost of Operations	**$**	**(466,394)**	**$**	**524,086**	**-188.99%**
CONDENSED STATEMENT OF NET POSITION					
Beginning Cumulative Results of Operations	$	(369,882)	$	(907,005)	59.22%
Total Financing Sources		(300,868)		1,061,209	-128.35%
Less: Net Cost of Operations		(466,394)		524,086	-188.99%
Ending Cumulative Results of Operations	**$**	**(204,356)**	**$**	**(369,882)**	**44.75%**
Beginning Unexpended Appropriations	$	1,753,736	$	1,281,279	36.87%
Total Budgetary Financing Sources		(60,932)		472,457	-112.90%
Ending Unexpended Appropriations	**$**	**1,692,804**	**$**	**1,753,736**	**-3.47%**
Ending Net Position	**$**	**1,488,448**	**$**	**1,383,854**	**7.56%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES					
Unobligated Balance Brought Forward	$	5,433,986	$	5,632,368	-3.52%
Other Budgetary Resources, Net		(577,710)		(473,129)	-22.10%
Appropriations (discretionary and mandatory)		1,274,707		2,649,756	-51.89%
Borrowing Authority (discretionary and mandatory)		762,945		1,520,370	-49.82%
Spending Authority from Offsetting Collections		3,932,731		4,730,229	-16.86%
Total Budgetary Resources	**$**	**10,826,659**	**$**	**14,059,594**	**-22.99%**
Obligations Incurred, Budgetary	$	1,661,198	$	2,882,329	-42.37%
Obligations Incurred, Nonbudgetary		3,453,214		5,743,279	-39.87%
Unobligated Balances, Available and Unavailable		5,712,247		5,433,986	5.12%
Total Status of Budgetary Resources	**$**	**10,826,659**	**$**	**14,059,594**	**-22.99%**

Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that was derived from the Financial Statements and Notes in this report. The Operational Portfolio Analysis does not reference the financial statements, but rather it provides an operational analysis of SBA's credit programs. As a result, the definitions of the loan and guaranty balances in the Portfolio Analysis section may differ somewhat from the balances used in this Analysis of Financial Results. For example, for the 7(a) program the total amount of guarantied loans is used in the Portfolio Analysis, where only SBA's guarantied portion is used in the Analysis of Financial Results, as it ties to balances in the financial statements.

Background

The SBA is a major federal credit agency of the U.S. Government. The SBA had 3,128 employees including Disaster Full Time Equivalent employees in FY 2014. As a result only $0.9 billion of SBA's $10.8 billion budgetary resources in FY 2014 were for salaries and expenses, with the rest supporting SBA's credit programs. Budgetary resources when apportioned by the Office of Management and Budget are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post 1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by the Office of Management and Budget. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6A in the financial statements.

The portion of the outstanding principal guarantied by the SBA as of September 30, 2014 was $83.5 billion, an increase of 5.6 percent from the $79.1 billion guarantied at September 30, 2013 (see Note 6C in the financial statements). As shown in **Chart XVIII,** new guaranties disbursed by SBA participating banks during FY 2014 were $18.0 billion, a 1.7 percent increase compared to the FY 2013 figure of $17.7 billion. The $0.3 billion increase resulted from a $1.5 billion decrease in 504 Development Company Recovery Act loans, a $1.5 billion increase in 7(a) loans, a $0.4 billion increase in SBIC Debentures, and a net $0.1 billion decrease in other loan programs in FY 2014. The increase in FY 2014 disbursements and a reduction in purchases of guarantied loans contributed to the 5.6 percent increase in outstanding guarantied principal from the previous year.

CHART XVIII GUARANTIED LOANS DISBURSED

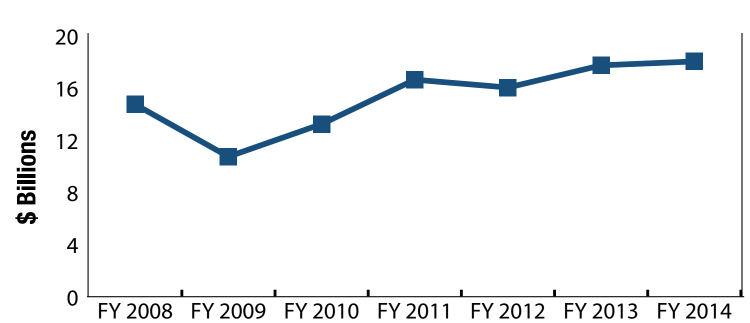
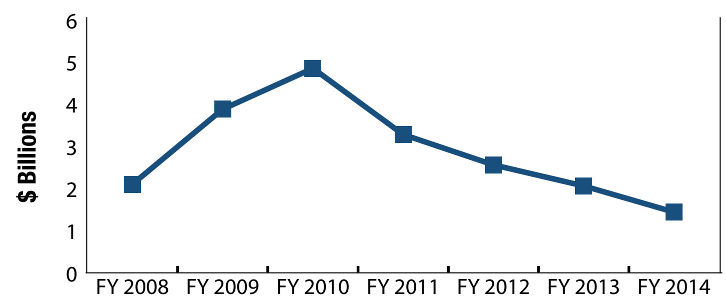


CHART XIX PURCHASES OF GUARANTIED LOANS



Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs which are offset by an allowance for subsidy. An allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at $6.9 billion in FY 2014 which was a decrease of $0.6 billion from FY 2013. The change in the credit program receivables resulted from a decrease in defaulted guarantied business loans of $0.3 billion and a decrease in direct disaster loans of $0.3 billion. The amount of defaulted guarantied loans decreased as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an improved economy in FY 2014. The amount of direct disaster loans decreased as collections and charge-offs exceeded new loans, partially offset by a lower subsidy allowance amount.

As reflected in **Chart XIX**, guarantied loan purchases decreased $0.6 billion in FY 2014. The decrease this year reflects the continuing recovery after the economic recession. The decrease in purchases this year did contribute in part to the decrease in the outstanding guarantied business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

Financial Position

Assets

The SBA had total assets of $13.2 billion at the end of FY 2014, down 4.8 percent from FY 2013. Total assets decreased primarily due to a $588.0 million decrease in Credit Program Receivables and Related Foreclosed Property. This decrease was due to the amount of defaulted guarantied loans decreasing as the result of collections and charge-offs exceeding new guaranty purchases, as well as the amount of direct disaster loans decreasing as collections and charge-offs exceeded new loans.

Liabilities

The SBA had total liabilities of $11.7 billion at the end of FY 2014, down 6.2 percent from FY 2013. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury. The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. The Liability for Loan Guaranties decreased $0.9 billion due to the year-end downward reestimate of future costs for SBA's guaranty portfolio. The downward reestimate reflects the improvement in SBA's portfolio and the economic recovery.

The Downward Reestimate Payable to Treasury increased $0.5 billion due to the larger year-end accrual of the downward reestimates for the 504 program cohorts in FY 2014. Better than projected FY 2014 loan performance across all cohorts was the primary reason for the larger downward reestimate for FY 2014 compared to FY 2013.

Debt with Treasury decreased $0.3 billion due to the decrease in disaster loan disbursements in FY 2014. Note 9 to the financial statements provides additional detail on SBA debt with Treasury.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased $0.2 billion because unfunded upward subsidy reestimates at year-end for almost every program were less this year than last year. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended appropriations decreased $61.0 million this year primarily because the amount of appropriations received was significantly less than the appropriations received in FY 2013 for business, disaster, and administrative activity. This affected Budgetary Financing Sources and the Ending Net Position.

Net Costs of Operations

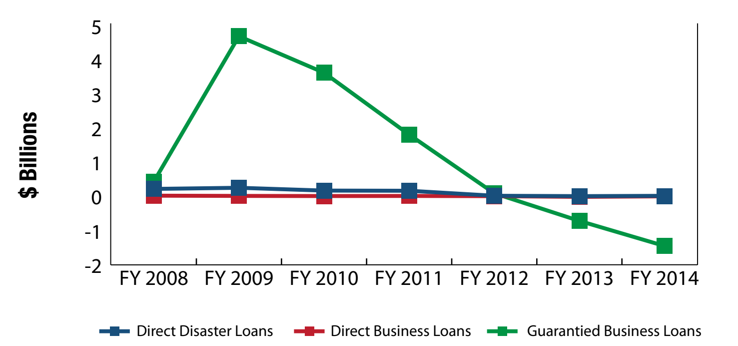
The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to the U.S. Treasury.

The reestimated costs for almost every program decreased in FY 2014 resulting in a net downward reestimate which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XX** reflects the decreases in the subsidy reestimates for the Guarantied Business and Direct Disaster loan programs in FY 2014.

There was a downward reestimate in the 7(a) programs. The downward reestimate of $0.4 billion was due mostly to lower than average purchases during FY 2014 that decreased the overall purchase curve, in turn decreasing purchase projections in future years and contributing to the downward reestimate for FY 2014.

The Recovery Act, and 504 Jobs Act programs had a significant downward reestimate of $0.8 billion due to better than projected FY 2014 loan performance. Further detail on subsidy reestimates can be found in Note 6I to the financial statements in the Financial Reporting section of this report.

CHART XX CREDIT PROGRAM SUBSIDY REESTIMATES



The SBIC Participating Securities and Debenture programs had a downward reestimate of $0.1 billion in FY 2014 that was due mostly to better than projected loan performance. Actual recoveries were higher than projected, and actual default purchases were lower than projected in FY 2014. The FY 2014 loan performance contributed to updated model assumptions, which resulted in decreased cash outflow projections.

Budgetary Resources

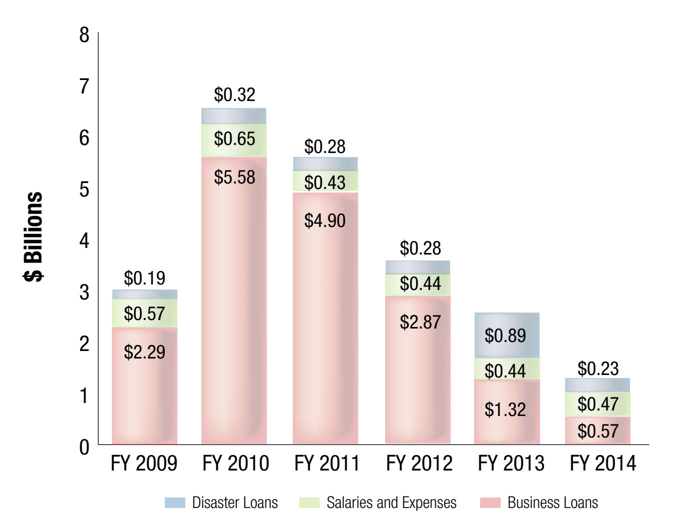
Total Budgetary Resources of $10.8 billion decreased $3.2 billion in FY 2014. This decrease is the net result of previous year unused appropriations available this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net decreased by $0.1 billion in FY 2014. This decrease is attributable to a larger repayment of borrowings from prior year balances, offset with a large increase in prior year recoveries in FY 2014.

Appropriations (discretionary and mandatory) decreased $1.4 billion in FY 2014. As shown in **Chart XXI** the decrease was the combination of the decrease in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, as well as a reduction in the need for subsidy to fund the Agency's major loan programs in FY 2014.

Borrowing Authority decreased $0.8 billion in FY 2014. Disaster borrowing authority initially granted to the SBA was $1.0 billion, but the SBA withdrew $0.8 billion at year-end FY 2014 as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections decreased $0.8 billion in FY 2014. Lower current year collections were used to repay borrowings in FY 2014, tending to increase the ending balance. This was offset by a significant decrease in FY 2014 collections received for subsidy, as well as reduced year-end subsidy reestimates this year.

CHART XXI APPROPRIATIONS



Status of Budgetary Resources

The Total Status of Budgetary Resources of $10.8 billion decreased $3.2 billion in FY 2014. Budgetary obligations decreased by $1.2 billion in part because subsidy reestimates decreased in FY 2014 for the guarantied business programs, and because the subsidy rates for SBA's loan programs decreased in FY 2014. Nonbudgetary obligations decreased $2.3 billion due to the decrease in obligations related to financing fund reestimates, loan making, and purchases of guarantied loans.

Unobligated balances at September 30, 2014 and 2013 were $5.7 billion and $5.4 billion which include $3.7 billion and $4.0 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($4.3 billion in FY 2014 and $4.1 billion in FY 2013) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

DID YOU KNOW

SBA 7(a) lending reached almost **52,044 loans** for more than **$19 billion,** surpassing FY 2013 by 12.18 percent in number of loans and 7.4 percent in dollar amount.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act of 1982. The FMFIA also requires that the assessment results be reported to the President and the Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office, and SBA's Office of the Inspector General. During FY 2014, SBA's Office of Internal Controls (OIC) developed a self-assessment checklist to specifically assist district office management in documenting the adequacy of controls within their area of responsibility. Other offices continued to use a checklist developed in the past that is periodically updated to reflect current SBA control systems.

In support of internal control assessments, the OIC oversees the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. SBA's Senior Assessment Team (SAT), chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices directed compliance with the circular. Key business processes impacting financial operations and the financial statements were reviewed by OIC. Based on the evaluation of 15 business processes, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. Additional reviews by SAT members covered some business processes that had no material impact on the financial statements, but did present some potential for risk or exposure to the Agency. The SAT evaluated the review findings and determined that none reached the level of material weakness.

Starting the fiscal year with the federal government shutdown followed by continued budgetary restrictions, the SBA adopted pro-active budgetary measures to ensure mission coverage. SBA management developed strategies to minimize risks while maintaining sound controls.

This year, the SBA continued to have a significant deficiency in information technology security controls, to include access controls and identity management. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. To address these deficiencies, the SBA obtained professional IT products and services that are being utilized to facilitate process improvements and for operational upgrades needed to correct the deficiencies. The Agency has plans in place to take additional corrective action to further improve these areas in FY 2015.

The SBA took additional actions that focused on implementing an Information Security Continuous Monitoring (ISCM) strategy. SBA's preliminary ISCM strategy is designed to provide a roadmap that focuses on a near-real-time approach to SBA risk remediation, operational awareness, and long-term risk management. The SBA ISCM goals and objectives include, but are not limited to:

- implementing new operational IT capabilities in the areas of cybersecurity, network operations, and Helpdesk activities;
- improving SBA's IT risk posture and enable the SBA to operate within a known and defined risk tolerance threshold by integrating System Development Life Cycle (SDLC) processes with current vulner-

ability data and assignment of risk. (e.g., Technical Review Board, Architecture Review Board, Change Control Boards, etc.);

- streamline SDLC activities by automating tasks to support Security Assessment and Authorization workflow requirements in order to reduce impacts on system owners;
- enable staff to effectively manage SBA's IT systems in near-real-time and respond to information system threats; and
- incorporate real-time vulnerability data with SBA's operational data to support more informed IT risk based decisions.

Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost effective loan guaranty processing. Management remains focused on robust financial management systems that improve SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout this Agency Financial Report, the SBA seeks to comply with all federal financial management system requirements and there have been no deficiencies identified under the Federal Financial Management Improvement Act of 1996.[1]

The SBA completed a series of incremental improvement projects designed to modernize the financial management systems to improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and prolong system useful lives. These projects include the migration of the systems to more current technology platforms and relocation to modern data centers that provide expanded capability for continuity of operations.

In addition to modernization of the financial system platforms, the incremental improvement projects added missing functionality to the financial systems, building improved integration between the systems, improving consistency of data, enhanced reporting capability, and improving SBA's automation of funds control for loan programs and loan subsidy.

The incremental improvement projects enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. Core financial systems at the SBA are comprised of three systems operated and managed by the offices of the Chief Financial Officer and Capital Access. The systems include:

- *Oracle Federal Financials* – Upgraded to the most current release, this Commercial Off-The-Shelf (COTS) package is used for budget execution and management for administrative activity.
- *Loan Systems* – SBA-built systems used to support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing and loan related expenses.
- *Financial Management System (FMS)* – SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

1 The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, the Congress, and the public. (Office of Management and Budget, http://www.whitehouse.gov/omb/financial_ffs_ffmia).

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2014

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2014. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives.

An example of SBA's commitment to internal control objectives occurred during the lapse of appropriations on October 1, 2013. In response to this event, the SBA conducted an orderly shutdown of operations of all its offices with the primary exception of Disaster Assistance. When the federal government passed appropriations and re-opened on Thursday, October 17, 2013, the SBA restarted operations and successfully continued with its mission objectives without sacrificing internal control practices.

SBA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Controls. Agency managers have issued assertions to me as to the status of their FY 2014 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of these evaluations, I can provide reasonable assurance that internal controls over operations and compliance with applicable laws and regulations, as of September 30, 2014, were operating effectively and no material weaknesses were identified in the design or operation of those internal controls. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal control over financial reporting was operating effectively and no material weaknesses were identified in the design or operation of internal control over financial reporting for FY 2014.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2014 financial statements for the tenth year in a row. However, the auditor identified one instance of non-compliance with applicable laws and regulations as of September 30, 2014. Specifically, due to ongoing issues with the Agency's legacy mainframe loan information system, not all co-borrowers and guarantors on charged-off 7(a), 504 and disaster loans were referred to the Department of Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA).

The SBA has a DCIA Compliance Team made up of representatives from the Office of Capital Access and the Office of the Chief Financial Officer, who work together to identify and resolve problems pertaining to the implementation of the DCIA. As a result of their efforts, the SBA has implemented improvements to support the ongoing referral of defaulted loans, including referrals of co-borrowers and guarantors, to Treasury. In FY 2014, the team conducted data analysis and instigated system corrections to resolve issues with loans rejected by Treasury's system in previous years. Despite these improvements, the underlying system issues will likely continue to be a challenge for the Agency until the transition from the legacy mainframe to a web-based system is complete.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2014.

Maria Contreras-Sweet
Administrator
November 17, 2014

SUCCESS STORY: Completing a Good Job on Time

Quality First Cleaning Contractors,
Fort Riley, Kansas

When **Byong Lee** started working as a custodial shift manager for a maintenance company at Fort Riley, Kansas in 1982, she had dreams of running her own business. Now, more than 30 years later, she successfully manages multiple federal and commercial contracts in Kansas and Missouri as owner of Quality First Cleaning Contractors.

A native of South Korea, Lee started Quality First Cleaning Contractors in 1999. She instills in her employees the pride that comes from completing a good job on time. "I learned this philosophy over the 30 plus years of work in the custodial industry. I believe that pride comes from providing the best possible service to my customers and will yield a long-term relationship with them." Lee strives to make sure her bid proposals are priced competitively and that she includes the labor and materials necessary to do a good job that is completed on time.

Lee applied for and was accepted into SBA's 8(a) business development program. She credits the program with helping her take the business to the next level. She also became HUBZone certified and was awarded a custodial/cleaning contract for the U.S. Army Reserve Center in Wichita before graduating from the 8(a) program. Since then, Quality First Cleaning Contractors has filled service contracts for custodial services for several facilities in Fort Riley, state and local governments, private sector companies, and the Social and Rehabilitation Services building in Junction City, Kansas.

Improper Payments Summary

The Improper Payments Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, Management's Responsibility for Internal Control: Requirements for Effective Measurement and Remediation of Improper Payment, requires agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, and estimate annually the amount of erroneous payments made in those programs. The Circular requires risk assessments at least once every three years to determine a program's susceptibility to improper payments, so the SBA performed 11 risk assessments during FY 2014 due to the expiration of the three-year cycle. The SBA also conducted 3 new risk assessments to comply with the Improper Payment Elimination and Recovery Improvement Act of 2010, which requires the assessment of payments to employees. The risk assessments did not identify any additional programs as susceptible to improper payments.

The SBA has five programs and activities that are subject to improper payment reporting: the 7(a) loan program, the Certified Development Company (504) loan program, the Disaster loan program, disbursements related to goods and services, and new in 2014, grant programs that received Hurricane Sandy Disaster Relief funds. The Small Business Investment Company program, a major credit program, retained approval from OMB for relief from reporting due to the low occurrence of improper payments as determined by several years of review and the continued low probability for improper payments as determined by the 2014 risk assessment.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The Agency's primary concern in its improper payment reporting stems from administrative and documentation errors which are caused by the absence of supporting documentation necessary to verify the accuracy of a payment or errors caused by incorrect inputting, classifying, or processing of applications or payments. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section.

DID YOU KNOW

The SBA proudly recognizes SCORE on its 50th anniversary. With a network of 320 chapters and 11,000 volunteer mentors, SCORE has served more than **10 million** entrepreneurs and small business owners, providing mentoring, counseling, and coaching sessions.