



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

October 24, 2012

The Honorable Mary L. Landrieu
Chair
United States Senate
Committee on Small Business & Entrepreneurship
Washington, DC 20510-6350

Dear Madam Chair:

Administrator Mills has asked me to respond to your letter to Office of Management and Budget (OMB) Deputy Director for Management Jeffrey D. Zients and her regarding the U.S. Small Business Administration (SBA) 7(a) and 504 Loan Programs' subsidy costs. After close coordination with OMB, we are responding on behalf of OMB and SBA. As you know, access to capital for our small businesses is essential to our nation's economic recovery, allowing small business to prosper and create jobs. Last year SBA had a record year of lending – we supported \$30 billion in small business lending to over 60,000 businesses.

While the subsidy rate has increased in recent years due to a variety of economic factors, we still believe SBA loans provide an excellent return on investment. For fiscal year 2013, we are requesting \$351 million in subsidy to support \$22 billion in loan authority. This authority level is sufficient to serve the needs of the small businesses that seek our assistance. As you discuss in your letter, the loan subsidy rates are set by a formula. Currently, the fees that offset these costs are at their maximum statutory levels.

I appreciate your interest in the subsidy cost estimates for our loan programs and the econometric model that is used to forecast them. Attachment A provides an overview of the model, including its variables and recent changes. As the attachment notes, SBA – in consultation with OMB – conducts intensive annual reviews of the model to improve its predictive capabilities. Although these intensive reviews have not produced any model-specification changes over the past two years, based on our preliminary analysis, we are reviewing potential changes to the model for the FY 2014 Budget. We address your specific numbered questions in attachment B to this letter.

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I hope that these responses to your questions address your concerns. If you have any questions, please contact me or Nicholas Coutsos, SBA Assistant Administrator for Congressional and Legislative Affairs, at (202) 205-6700.

Thank you again for your leadership and partnership as we continue to find ways to better serve small businesses across the country.

Sincerely,

Jonathan I. Carver
Chief Financial Officer &
AA for Performance Management

Enclosures