U.S. Small Business Administration

SBA

Your Small Business Resource

News Release

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Contact: Sean Rushton (202) 205-6882
Internet Address: http://www.sba.gov/news

SBA FY 2008 Budget Proposal: Myth vs. Fact

1. **Myth:** Since coming to power in 2001, the Bush Administration has made significant cuts to the SBA's budget that have been a detriment to small businesses.

- **Fact:** Since 2001, SBA has made tremendous progress in becoming more efficient. Salaries and expenses are down 31%, while our core lending, contracting and counseling programs have expanded dramatically. SBA loan programs have grown by 56% during this time period. In 2005, the last year for which data is available, small businesses secured almost $80 billion in prime contracts, from agencies and departments across the federal government. Of that, $21 billion went to small, disadvantaged businesses. It's an impressive story of improving stewardship of taxpayer dollars while continuing to expand critical services.

2. **Myth:** The current budget proposal will reduce the services, counseling, and outreach programs provided by Small Business Development Centers and Women's Business Centers.

- **Fact:** It is important to note that the federal government is not the primary source of funding for these programs. Services to small businesses will not be reduced. Over time, these programs have proven they can meet their demand within existing resources. We believe our vast network of partners can effectively serve these borrowers.

3. **Myth:** The budget lacks funding for loans and venture capital programs. This will require the agency to raise fees or reduce programs.

- **Fact:** SBA will have the capacity to provide 40% more loans under this budget compared to what was funded in FY06. In all three of SBA's largest loan programs (7 (a), 504, SBIC), the fees will be lower under this budget. In fact, in the 504 program, the entire upfront borrower fee is being eliminated. All three of these programs have continued to grow and perform very well on a self-sustaining budget basis. Being self-sustaining ensures the programs will be available whenever small businesses need them.

4. **Myth:** The budget only proposes a token increase in staff to monitor contract bundling and break out contracts for small firms.

- **Fact:** The agency unveiled major reforms last November to help small businesses win more government contracts through greater transparency, tighter certification standards, and improved accuracy in reporting. To support this effort, the SBA is adding nine more

Procurement Center Representatives (PCRs) to work with small businesses to help secure contracts from government facilities and organizations across the country. This is a substantial increase in the number of PCRs.

5. **Myth:** There is not enough money in the budget to keep the disaster loan program running.

- **Fact:** The President's budget includes sufficient funds to cover a typical, ten-year average disaster year. During extraordinary events like the World Trade Center, the 2004 Florida hurricanes and the 2005 Gulf Coast hurricanes, the SBA notifies Congress and Congress provides supplemental funding.

6. **Myth:** The SBA needs to return to a $100 million a year taxpayer subsidy for the 7 (a) program in order to increase SBA loans across the country.

- **Fact:** Since we ended taxpayer subsidies in 2004, the 7(a) program has grown tremendously. In the three years before the program became self-sustaining in 2005, SBA averaged $11.6 billion in lending through 7(a). Since then, the average year has been $14 billion – a 21% increase.

7. **Myth:** The zero subsidy approach to the popular 7 (a) loan program has an adverse effect on the small businesses and entrepreneurs who need it most.

- **Fact:** Since 2005, the agency has saved approximately $100 million a year by eliminating taxpayer subsidies for the 7(a) loan programs. As a result, we don't need an appropriation to underwrite the program, which means the program doesn't run out of money during the fiscal year. This idea, whose inception is bipartisan – it was first proposed under President Clinton – is far more efficient for taxpayers. The reliability of the program encourages borrowers to dramatically grow the size and scope of the 7(a) program.

  Why is this happening? Because our financial partners can aggressively market the product and not worry about the program being shut down late in the year. So, they are more committed to it. A slightly higher fee is not nearly as big an issue as the program's reliability. We see the same issue in programs where our guarantee is lower but automation is greater.

8. **Myth:** More subsidies are needed for the 504 program and the Small Business Investment Companies.

- **Fact:** The 504 program has also been growing at an impressive rate in the past 4 years. The program increased 81% from FY03 to FY06, from $3.1 billion to $5.7 billion. Because the program is self-sustaining, all of this growth has been achieved without requiring taxpayer dollars. The President's budget proposal provides for $7.5 billion in 504 lending in FY08, an increase of almost 32% over FY06.

9. **Myth:** The SBA's proposal for a zero subsidy Microloan program and no technical assistance is a way of terminating the program.

- **Fact:** SBA's new management team is very focused on serving underserved markets. Although many microborrowers are served by other SBA products (44 percent of all 7(a) loans in FY 06 were under the microloan threshold of $35,000; our Community Express borrowers receive technical assistance), we understand the Microloan program may still be serving markets not reached by our other products. Therefore, we want to continue the program.

  To sustain support for the program, to ensure no possibility for program interruption (e.g., during continuing resolutions), and to make most effective use of taxpayers' funds, we propose a zero subsidy for the program. SBA makes direct loans to Microloan intermediaries. These intermediaries then lend funds to borrowers. Currently intermediaries pay less than the 5-Year Treasury rate to SBA for their loans. We are proposing they pay just over 1% more than that rate – still a very favorable rate for them. This would bring their interest rate to 5.99%. In comparison, note that on the average, the intermediaries charge 10.5% to borrowers.

  SBA already supports a nationwide network of resource partners who provide counseling and training to entrepreneurs. These include our SBDCs, WBCs, and SCORE. Through the Microloan intermediaries and district office staff, SBA would direct microborrowers to these sources of technical assistance. This will save taxpayers about $13 million from the Microloan technical assistance line item.

10. **Myth:** The whole Small Business Administration should be revamped and we should assess the programs we have to see what changes need to be made.

- **Fact:** The agency, which endured great challenges in the aftermath of Hurricane Katrina, is aggressively re-examining its operational structure in order to improve efficiencies and service. Last summer, we re-engineered our disaster loan processes, investing thousands of hours to redesign our operational processes. The results we obtained through these reforms have been remarkable:

* Of 160,000 applicants with approved loans from the 2005 Gulf hurricanes, 98 percent have now either received all or some of their loan money, or have chosen not to proceed;
* We have put $5.1 billion in SBA disaster assistance funds to work, rebuilding small businesses, homes and the lives of people affected by the 2005 Gulf hurricanes.

  In addition, we achieved impressive growth, as stated in answers above, in our loan programs, federal contracting initiatives and counseling centers. Like any organization, it is important for us to continually examine where we can make improvements so that we can provide the best possible service to our customers.

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