



News Release

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Contact: Christine Mangi (202) 205-6948
Internet Address: <http://www.sba.gov/news>

SBA 2001-2008: A Record of Reform

When President Bush came to office in 2001, he wanted to bring the U.S. Small Business Administration's policies, processes, and products into the 21st century. Global competition and advanced technology were rapidly changing the environment for entrepreneurs, but SBA's processes needed reform. The agency's systems, some of which had been in place since its creation in 1953, were cumbersome, confusing and outdated.

To modernize, the administration began by centralizing the agency's loan processing functions, restructuring major programs, and instituting a zero-subsidy funding model for its 7(a) loan program. The zero-subsidy model led to record loan volume, greater predictability for lenders, and taxpayer savings of \$120 million per year.

While the centralization process was difficult for the agency -- it required workforce downsizing, realignment and training -- the old processing functions had not been working well for some time. This reform was the foundation of all other plans to modernize and streamline the loan program, and will benefit lenders and borrowers for decades to come.

In 2005, Hurricanes Katrina, Rita and Wilma presented unprecedented challenges for the agency's disaster assistance operations. SBA, like government agencies at the federal, state and local levels, was overwhelmed and subsequently criticized for being too slow, bureaucratic and inefficient.

In response, the agency in 2006 significantly overhauled its Disaster Assistance operations and ramped up efforts to improve overall agency efficiency. Designated as SBA's Reform Agenda, comprehensive staff training, streamlined processes, better management practices and strong accountability standards were put into place.

SBA's reforms, new initiatives and enhanced products throughout the Bush Administration have put the agency on a more solid footing. Every department and program within the agency has achieved measurable success, resulting in better service to small businesses, record loan volume and improved help for disaster survivors.

SBA is well positioned to build on its status as a more efficient, modern and streamlined agency. Employee morale is up and SBA customers will reap the benefits of recent changes for years to come.

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Disaster Assistance Improvements

Given the breakdown of SBA's response following the 2005 Gulf Coast hurricanes, the agency's disaster operations have been completely revamped. Today, disaster survivors receive responsive, compassionate and timely assistance.

- The Office of Disaster Assistance has been restructured, the capacity of the online Disaster Credit Management System expanded fourfold, a new Executive Office of Disaster Strategic Planning and Operations has been created, and a new Disaster Recovery Plan has been developed – all of which enable the SBA to more effectively respond to catastrophic natural disasters and serve survivors quickly.
- SBA created and trained a reserve corps of more than 4,000 experienced individuals, of which more than 1,300 have committed themselves to reporting to SBA disaster offices within 48 hours notice.
- Key processing times of disaster loan applications have been cut by up to 90 percent. The backlog of 102,000 approved loans that were waiting to be disbursed in July 2006 was cut to 22,000 by February 2007 and to 779 by December 2008.
- Today, disaster loan average processing times are six days for homes, eleven days for businesses, and twelve days for economic injury disaster loans.
- After the Midwest floods this year, SBA processed applications in an average of six days and approved more than \$392 million in disaster loans. Following Hurricanes Ike and Gustav, the average processing time was five days; nearly \$564 million in loans were approved.

Loan Processing Centralization

Before the Bush Administration, SBA's 68 field offices processed loans locally. The agency centralized its loan processing functions to six main sites, which led to a significant cut in loan processing turnaround times and helped SBA set records for loan volume and dollars. In addition, field offices could focus more on outreach efforts to small businesses in their regions. A few statistics that demonstrate the results:

- In June 2007, the average time for a lender to be paid its guaranty was 279 days; in 2008, the average decreased to less than 25 days for correct packages. The backlog time for lenders waiting to be paid their guaranty was cut from 18 months in 2006 to none in 2008.
- From 2002 to 2007, SBA backed more loans for small businesses than in each previous year. Even with the credit crunch, the SBA backed more than 78,000 small business loans worth almost \$18 billion during 2008, the fifth largest year ever for number of loans and fourth largest ever in total loan volume.

Government Contracting Reforms

One of SBA's core functions is to help small businesses obtain government contracts. Despite the federal marketplace's massive growth, from \$182 billion in 1998 to nearly \$400 billion today, there had never been a thorough examination of the agency's contracting programs up until two years ago. As a result, the agency launched a new initiative to bring greater accountability and transparency to federal procurement:

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- All federal agencies are now accountable for their procurement goals through an annual small business contracting scorecard.
- In conjunction with the Office of Federal Procurement Policy (OFPP), SBA ordered the federal contracting database scrubbed during fiscal year 2007 to bring greater integrity to the data. This corrected \$4.6 billion of erroneous data in the small business contracting database.
- A Recertification Rule has tightened the definition of small business in the federal database. Consequently, about \$10 billion of incorrectly coded small business contracts -- out of \$80 billion -- were cut from the federal rolls, opening new opportunities for small businesses.
- SBA eliminated the 8(a) certification process backlog. The average processing time has been reduced from 145 days in 2006 to 77 days in 2008, helping small disadvantaged businesses get started in federal contracting sooner.

Zero-Subsidy for 7(a) Loan Program

The SBA's bread-and-butter loan programs to small business owners – 7(a) and 504 – provide financial assistance that helps businesses grow and boosts local economies. The Bush Administration – with Congress's approval – eliminated the 7(a) program's \$120 million annual taxpayer subsidy and funded the program through a user fee similar to existing fees that had been in place for 20 years.

This bipartisan idea – it was first proposed for 7(a) under President Clinton, who also implemented it for the 504 program – is far more efficient for taxpayers, lenders and small businesses. Without a taxpayer limit on the number of loans that could be made each year, lenders began to aggressively market the loans without worrying that the program would reach its limit and be shut down late in the year. It allows SBA to respond to small business demand for loans whatever that demand level reaches, and it has performed exceptionally well:

- With the exception of FY 08, the program has set loan volume records each year since taxpayer subsidies ended at the start of FY 05. The year before, FY 04, the program had to shut down because demand exhausted the available subsidy. With a zero-subsidy funding mechanism, that should not happen again.
- Even with the current credit crunch, FY 08 was SBA's fifth largest year ever for number of loans and fourth largest for dollar volume, dwarfing the previous Administration's best year by 30 percent in number of loans and 42 percent in dollars.

Taxpayer Stewardship

The SBA is a small agency with a vast reach. The growth and effectiveness of SBA programs is remarkable considering staff reductions and a modest budget increase since 2000. Given this record, the SBA has become a case study of how the federal government can deliver services in a manner that is both financially responsible and responsive to customers.

- The agency's budget has grown a modest 11 percent between 2000 and 2008. Excluding disaster assistance funds and congressional earmarks, the agency budget declined about 9 percent from \$591 million in 2000 to \$537 million in 2008. However, accounting for elimination of the 7(a) lending program's annual \$120 million subsidy since 2005, the budget would be \$657 million, or 11 percent over 2000.

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- Despite a staff reduction of about 30 percent, some of which was a result of the agency's consolidation of its loan processing functions, processing time for new applications in the 7(a) program fell 50 percent, allowing the agency to respond to lenders more quickly and consistently even as loan volume has increased.
- Following the agency's staff reduction, SBA realigned the roles of employees and launched SBA University, the largest staff training in agency history. More than half of the agency's permanent employees participated in the two weeks of comprehensive training, ensuring they understood their responsibilities and had the resources to perform their jobs well.
- In every year from 2002 to 2007 the agency set loan volume records. And as mentioned above, 2008 was still an impressive year despite the impact of the credit crunch.

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