

# THE SBA IN YOUR COMMUNITY: A REVIEW OF SBA FIELD OPERATIONS

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## ROUNDTABLE

BEFORE THE

## COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

JUNE 30, 2011

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ONE HUNDRED TWELFTH CONGRESS

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## **THE SBA IN YOUR COMMUNITY: A REVIEW OF SBA FIELD OPERATIONS**

**THURSDAY, JUNE 30, 2011**

UNITED STATES SENATE,  
COMMITTEE ON SMALL BUSINESS  
AND ENTREPRENEURSHIP,  
*Washington, DC.*

The committee met, pursuant to notice, at 2:44 p.m., in Room 428-A, Russell Senate Office Building, Hon. Mary L. Landrieu (chair of the committee) presiding.

Present: Senators Landrieu, Shaheen, and Ayotte.

### **OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA**

Chair LANDRIEU. Well, thank you all for joining me today, and the members of our Committee.

This is an informal, but important, roundtable, one of about two dozen that I have conducted as Chair since becoming Chair of the Small Business Committee. We are expecting several members of our Committee to stop in and be with us this afternoon, but we find these roundtables to be very, very valuable in bringing to our Committee ideas and policy areas that we should focus on as a committee. And I have long wanted to have a meeting of some of our directors, and that is what today is about.

I am going to do just a very brief opening statement and then ask each of you to introduce yourselves. And again, as members come in, we will recognize them as they do.

I want to thank all of the district directors for joining us today. I believe we have 10 of our district directors out of 68 districts in the country. And I think there are over 100 locations, so we are excited to have a good number represented here.

I would also like to recognize, although he is not here, Eugene Cornelius who helped to organize this event. Unfortunately, I think he has been assigned jury duty today. And as one of my staff says, while he is a good talker, he was not good enough to talk himself out of jury duty. So he is not with us today.

We understand that you are district directors. We are so thrilled that—we just started, Senator Shaheen—to be joined by Senator Shaheen from New Hampshire. We appreciate her extraordinary leadership.

And we have asked you all to come together today as district directors who are literally on the front lines of our SBA operations. While policy is made here in Washington, you are the ones actually assisting many of our entrepreneurs, or trying to assist entre-

preneurs, in extremely difficult and challenging economic times. So we want to hear from you what is working, what is not working, what we should potentially be focused on here that we are not, and we are hoping to get some good information from you today.

I am particularly interested to meet with you. And I think Senator Shaheen already knows this, but in preparation for this roundtable I was shocked to know that the SBA has gone from 1,800 employees under the Bush Administration to less than 900 today. This agency has taken a greater reduction in funding and personnel than any agency or department of the Federal Government.

My goal as Chair of the Committee, and I think my Ranking Member shares this view, but she will have to speak for herself and her team, but I know that the Democrats feel very strongly that this is an important agency of the Federal Government, that we take a small amount of money and leverage it substantially to create jobs and opportunity at a time when our country could not need them anymore. So while we do have budget constraints I just want our group here to understand that this agency has already taken substantial reductions, that we are building up from a deep trench that we are currently in, and I am going to be interested in hearing from you all as directors how your offices have responded to such a reduction in personnel and are you able to maintain your same level of service and, if so, how are you doing that.

I also want to put into the record the Louisiana District Office in New Orleans had 21 employees in 2001. Now there are only 11.

With those things in mind, I want to make sure today that we learn about the structure of district offices and how they are operating, discuss how the district offices coordinate with State, Federal and local agencies, discuss how the economic downturn is impacting your community, talk about the Small Business Job Act to see if you are feeling any impacts from that major piece of legislation that we passed just recently, discuss how your SBA on the ground is identifying and preventing fraud, and hear from your small businesses on success stories that you are hearing from entrepreneurs as they receive access to credit, et cetera.

Let me just end with the rules of this roundtable. They are very few and simple. I am going to ask of you to identify yourself. When you want to be called on to speak in response to questions, just put your name card—up like this, and I will be happy to recognize you. We really want this to be a free-flowing exchange of information. And that is basically it.

So let me say that I am joined by Bryan van Hook, my Policy Director on my side, Diane Dietz of Senator Snowe's staff. I am going to stay for at least 45 minutes.

And I would like to ask Senator Shaheen if she wanted to make just any brief opening statements, and then we will call on each of you to introduce yourself.

**OPENING STATEMENT OF HON. JEANNE SHAHEEN, A U.S.  
SENATOR FROM NEW HAMPSHIRE**

Senator SHAHEEN. Thanks very much, Chair Landrieu, and thank you for holding the roundtable today.

SBA and the work that you do is very important in New Hampshire, and I am so pleased that Greta Johansson is here. It is nice

to be able to welcome her. She is relatively new to the New Hampshire office, and so we are delighted that she is there.

We were talking about the change in the number of employees within the agency. I think during the 90s the SBA office in New Hampshire, which virtually kept business afloat in New Hampshire because five of our seven largest banks failed, so you could not get access to credit as a small business unless you went through the SBA. I think at that time we had about 21 employees in the field office in New Hampshire. I know when I took office in the Senate we were down to about 7. I do not know where we are today, but that is a reflection of what the challenges that everyone is facing.

And it is particularly important because for us in New Hampshire—I know the same is true in Louisiana—we have a small business economy, and the work that you do, providing resources to those businesses, is absolutely critical.

So I want to thank you all very much for being here, for having this discussion with us today, and again, thank Chair Landrieu for her leadership.

Chair LANDRIEU. Thank you, Senator.

Well, let's start with you, Mr. Cadena, to just introduce yourself briefly and maybe just a 30-second background.

Mr. CADENA. My name is Edward Cadena. I am from the Los Vegas, Nevada District Office. We cover the whole State. I am originally from New Mexico. I have got 32 years with the Federal Government, 18 years with the Federal Deposit Insurance Corporation and 14 years with SBA.

Chair LANDRIEU. Thank you so much.

Lynn.

Ms. DOUTHETT. I am Lynn—

Chair LANDRIEU. You have to press your button and speak fairly close to the mic for it to be picked up.

Ms. DOUTHETT. I am Lynn Douthett, the District Director for North Carolina. We cover the whole State as well. I have been with the Federal Government for 13 years, with SBA specifically. My previous background was banking for 15 years and own my own small business for 6.

Chair LANDRIEU. Okay.

Mr. DICKSON. My name is Dave Dickson. I am the District Director for Eastern Pennsylvania for the SBA. I have been in the SBA for about five and a half years. Prior to that, I was a plant manager for Stanley Tools Corporation, a plant manager for Cirrus Design Corporation, building airplanes, an assistant general manager for a defense company and an Army officer for 11 years, 4 months and 27 days.

Chair LANDRIEU. Thank you for your service in all of those areas, particularly the Army.

Mr. DICKSON. It has been an honor.

Chair LANDRIEU. Thank you.

Mr. Goldberg.

Mr. GOLDBERG. My name is Gil Goldberg. I am the District Director in Cleveland, and the Cleveland District covers the northern 28 counties of Ohio from the Pennsylvania line to the Indiana line. It is probably heavily industrial, old industry. And I have been

with the Federal Government for 19 years, most of which have been at the SBA.

Chair LANDRIEU. Thank you.

Ms. JOHANSSON. Hi. Good afternoon. I am Greta Johansson. I am currently the District Director of New Hampshire, which is the SBA office for the State of New Hampshire. Prior to that, I just passed my 29-year mark with the SBA, and those 29 years were split roughly half and half between the Connecticut District Office and the disaster side of SBA's operations.

And the Connecticut Office also went from—I watched it go from a high of 34 employees down to its current low of 9 employees.

Mr. LOPEZ. My name is Greg Lopez. I am the District Director for Colorado. We cover the entire State of Colorado.

I am a former elected official and former mayor in Colorado. I was former President of the Denver Hispanic Chamber of Commerce, also former Executive Director for the Minority Supplier Development Council, and I am a disabled veteran, served four years in the United States Air Force.

Chair LANDRIEU. Thank you so much for your service.

Ms. NELSON. I am Linda Nelson, the District Director in Arkansas. I have been with the agency since 1967 except for 13 years, having 4 kids. I came back in 1984 as a file clerk to start paying for those kids, and I am still doing that.

And I have kind of done things backwards, got my education late, thanks to SBA which gave me a basis for that and a place to move up. The only other place that I have served was in Herndon, briefly. Thank you. But it was a good lesson.

Chair LANDRIEU. Thank you so much, and very, very impressive resume.

Mr. NELSON. Good afternoon. My name is Bob Nelson. I am the State Director for Massachusetts. It covers the entire State of Massachusetts.

I have been the State Director for about three and a half years. July 1st, I will have my 20 years in with the Federal Government. I have been with the SBA for 14 years. Prior to that, I was with the FDIC, and then prior to the FDIC I was a commercial bank, a small business lender.

Chair LANDRIEU. Great.

Mr. UMBERGER. I am Steve Umberger, District Director in the Baltimore District Office. Do not ask me how it got to be named Baltimore and not Maryland, but we serve the State of Maryland outside of Prince Georges and Montgomery Counties.

I grew up in a family owned small business. My father was a food distributor outside of Philadelphia, all those cheesesteaks and hoagie places, that I grew up from a very early age. So I understood the customer service and things like that, and some of the issues, the fundamental issues that the small businesses should have, if they do not. So we make sure that they get that information.

But I spent 17 years in Cleveland with SBA. I thought I would be with the agency for 3, I would get a little government experience, and this is my 30th year. So I worked for Gil Goldberg for a little bit, came to D.C. and took a transfer to the Office of Field Operations which actually oversees the district and region offices.



And then subsequent to that, I was able to take advantage of an opportunity to become the District Director in Maryland.

Chair LANDRIEU. Excellent. Wonderful story.

Ms. RAGHAVAN. Good afternoon. It is an honor to be here with you. My name Pravina Raghavan. I am the District Director for New York Office. I actually have the southern part of the State, the lower 14 counties which includes New York City, Long Island and then the Mid-Hudson Valley. I will be two years with the Federal Government, starting in September. I recently joined.

I am a former President/Vice President for MTV and BET networks, and I am also a former investment banker in technology, and I own my own strategic advisory firm for nine years.

Chair LANDRIEU. Excellent. Well, it is very impressive to see the range of experiences and backgrounds that you all bring, and it is just a terrific opportunity for our Committee to hear directly from you because one of our goals, of course, is to have the best and most effective, creative, innovative offices doing all sorts of things inside and outside the box—of course, all within the law—to help our small businesses.

So I want to start with this question for those of you, and all of you have been with the government for so long. What do you actually see right now as your greatest challenge to the communities that you are trying to serve? And it could be one, two, three or more challenges to the small business community.

I do not want to venture to say what it might be. But what are the challenges that you are seeing in your job today that might be a little bit different, or somewhat different, than you saw it 5 years ago or 10 years ago? Who wants to kind of start out?

Go ahead, Lynn.

Ms. DOUTHETT. For the State of North Carolina, I can speak to the issue that we have shed so many manufacturing jobs from tobacco, furniture and textiles. And we just recently held a small business roundtable, on Monday actually, and four of the manufacturing firms that were participating were very clear in two areas. One was highly skilled labor and also those in vocational and technical trades.

So what we are seeing is that——

Chair LANDRIEU. They are seeing a lack of skilled labor?

Ms. DOUTHETT. Yes.

Chair LANDRIEU. And a lack of graduates coming out of——

Ms. DOUTHETT. Highly technical skilled labor, so on one side the vocational trades. A lot of folks have gone on to college, so they do not necessarily have the vocational trades.

And then the other side is that many of them need the engineering and science backgrounds because we are big in biotech and pharma, as well as innovative and research through RTP and Gateway over in the Winston-Salem area.

So what we are really seeing is a gap that is occurring. So that was the first thing that we heard was the qualified workers.

And then the second thing we heard was the access to capital, specifically in that the credit box has tightened and folks are having difficulty being able to reach the higher bar that the lending community is expecting. And the other area of that would be that real estate, many of our lenders in North Carolina were very big

into real estate, and the value has gone down significantly. So that combination has made it difficult for some of our companies to get access to capital.

Chair LANDRIEU. Excellent.

Mr. Dickson.

Mr. DICKSON. I will reiterate what Lynn was talking about. We hear basically the same things in Eastern Pennsylvania, with one addition—a lot of our businesses do not have the demand that they had several years.

With the economy as is, people's 401Ks, the health care—I mean it goes on and on and on—they are not spending the discretionary income. As they are not spending the discretionary income, it is affecting our small businesses in Eastern Pennsylvania because they do not have the demand on their product or service, so they are projecting lesser gross revenues. As they project less gross revenues, and they have less collateral because of the real estate market, for instance, they are less credit-worthy.

I always tell businesses in Eastern Pennsylvania if they have been in business for five years and they are doing business today the same way they were five years ago, they probably will not be in business in five years because they have got to reduce costs; they have got to get higher quality, better products, higher services, all the mom and apple pie things that we always preach and we teach about. A lot of businesses are not there.

That is a really good thing about our Resource Partner Network, the SBDCs, SCORE and Women's Business Centers. They help those businesses that do not have the overhead structure to be able to have those professional engineers or those professional quality people or the materials managers, et cetera, on their staff because they just do not have enough business to support that. These businesses can go to these resource partners as well as the SBA district offices and get assistance where they would not get assistance any place else.

For instance, when I was a plant manager for Stanley Tools Corporation, going along with what Lynn was saying, we could not find the heavy welders. We could not find machinists, CNC machinists, and things like that. So I actually started my own welding school, to teach people that had a little bit of welding school how to actually do heavy welding, so that I could supply my own workforce because we could not find them.

Chair LANDRIEU. This is so troubling to me, and I do not know, Senator Shaheen, if you find it the same here as our country, struggling to create jobs. And sort of what would seem to me to be rather simple investments to be made in technical schools or in special training that could create the workers that could fill the jobs that go without seems to me to be just a real puzzlement as to how we cannot seem to manage.

You have to turn your card back around. I cannot read it.

[Laughter.]

All right. There you go. Go ahead, Ms. Raghavan.

Ms. RAGHAVAN. I was going to agree with both of what they have said.

The other two things that we have seen, which have been particularly in New York, is high credit card debt. So we have a lot

of businesses that actually went through, got through the recession and now are looking at 22 to 25 percent interest credit card debt, and we are trying to help them retool their cash flows and financials, so that they can stay in business.

And the other thing that we have a lot of is the immigration population. We have a lot of new United States citizens. We have a lot of immigrants who actually have high technical skills, but the language barrier and just understanding what we do is difficult for them. And so, we spend a lot of time actually in their native languages, such as Mandarin, Korean, Japanese and also Spanish, to actually teach them about our services because what we realize is our Small Business Development Centers, SCORE and Women's Business Centers handle a lot of what they do, but not having that language causes a disability for them to get to our services.

Chair LANDRIEU. That is a very, very interesting point. I had not thought about that.

Ms. Nelson.

Ms. NELSON. We have the same problem with the skilled workforce. But our 2-year colleges, we have 22, and there is an association of them. And they had developed some curriculum around different skills—catering, aerospace repair and so forth.

The one in West Memphis was recognized nationally for what they have done. A company puts in a robotics piece of equipment, trains a few students on how to use that. When they have a customer, they bring the customer over. The student demonstrates it, and often they buy the machine and the student a pretty nice paying job.

But they had asked us—after doing that, they had asked us, myself and the Director of our Small Business and Technology Development Center, to be advisors to them on introducing an entrepreneurship study within these colleges.

And many of them are doing that, so that if they—well, not only for those who might want to start their own business, but for those who are working, to understand the running of a business would make them a better employee, and working for someone then might lead to the creation of additional small businesses.

The other thing that we have had a problem with is getting retail establishments, like banks, to carry our product. I tell people: We are a tool dealer, and we have a few good tools, and like my dad said, you need to know how to use the right tool for the right job.

And so getting lenders, we are a State with a lot of very small banks. They are in small markets. They do not have a lot of opportunity, and they do not feel that they can stay up with our changing regulations, changing because they need to change, because everything is changing.

We came up with a sort of designated driver approach. We have a State nonprofit, quasi-State chartered entity that has one entity that does 7(a) loans, one that does 504, one that has an SBIC license, and then they do some very other creative things including rural broadband.

And since they are not competing with banks—they are regulated like banks—they offer these banks, if you have got a customer that you would really like to help but you are afraid that you

do not know enough about SBA to do this securely, then bring it to us. We will sell you a participation, and you have helped a customer. We are still involved. They are the boots on the ground, servicing the loan. So that has brought some loans to us that would not have been there.

One in particular, during the Recovery Act funding, the Administrator came to Arkansas for the anniversary. This was a sawmill, and she is familiar with all things related to flooring and wood and stuff. She put her boots on, was about to go slogging through the pits, and the owner said, no, the press is here. I do not want a picture of you sinking in our sawmill.

But he said, you saved my business, and my family has been in this business for 100 years. And getting it refinanced, using a designated driver lender was what made the difference.

And the other thing we have done is increase—we are recruiting the national top leader in microlending into the State because part of the problem is small loans are hard to get.

Chair LANDRIEU. And we have increased our microloan limits from what?

Ms. NELSON. Thirty-five to fifty.

Chair LANDRIEU. Thirty-five to fifty. Is that still in effect, or did it go out?

Ms. NELSON. Yes.

Chair LANDRIEU. Okay, it is still in effect.

Ms. NELSON. That is a permanent one.

Chair LANDRIEU. And that is a permanent fix that we hope will help.

Those are very interesting. I want to come back to your designated driver concept, and I will throw this out, but I want to hear from this same comment, answers to my first question.

But you know one of our goals; we have 8,000, approximately, community banks in America. When I took over this chairmanship, I think there were less than 500 that were engaged in regular small business lending. That number has now doubled to over, I think, about 1,300.

But in my mind, if we do not have at least half of the banks in America participating with the SBA, Senator, I am not sure that we are really maximizing the effects of our programs.

But you are right; in some of these communities the banks are so small that they do not feel like they can put the back office investment necessary because they may only be processing a dozen loans a year, I think.

Ms. NELSON. Oh, not even that.

Chair LANDRIEU. Not even that, maybe six loans or four loans a year. I think you have got to process several dozen to make it worth your time.

Ms. NELSON. Exactly.

Chair LANDRIEU. So we want to really push out, Jeanne, a strategy here, to get some kind of designated driver program for some of these smaller regions in the country. They are out there, but just encouraging the banks to use them, so anyone that walks through the front door of any bank does not get a no, gets either a yes or we cannot help but we know of some group that can, that we can share some of the risk with, et cetera.

We do not want a no.

Ms. NELSON. Right.

Chair LANDRIEU. We want a yes, or we want a we can do it partially.

So I want to come back to that, but go ahead, Mr. Lopez, on the same. What are the two or three things that you have seen that are very different than what you saw a couple of years ago?

Mr. LOPEZ. You know, I have been—I am fairly new to the agency. I have been with the agency three years, but echoing all the issues of capital, getting access to capital is what I hear in Colorado.

However, the other things that I am hearing are there are 26 Federal agencies in the State of Colorado that do procurement. Hopefully, a good thing for us is last year we were able to do \$1 billion in Federal contracting to the 8(a) program for the State of Colorado.

But here are the things I am hearing from the small businesses as it pertains to getting Federal contracts: Contracting officers are not necessarily returning back phone calls as it pertains to trying to build relationships. Contracting officers are not necessarily interested in utilizing small business. They feel that it is a little bit easier to go large.

A perfect example, in the building that I am in, they are doing a renovation of the building. I got a phone call from the agency that is overseeing it, informing me that they believe that there were no small businesses that could do the renovation. I had a conversation with them, philosophical meetings. After six meetings of going back and forth, and trying to make sure that I understood what they were looking for, I am proud to say that that building has gone now 100 percent small business. It is \$23 million. It is creating more jobs in Colorado.

But I think there is a tendency to believe that small business, perhaps it is the title, perhaps it is something else, but they are more inclined to go large.

Chair LANDRIEU. Isn't it ironic that the Small Business Office would be renovated by a large business, or a major business? I mean that would have been a headline.

Mr. LOPEZ. It would have, and I told the committee that—

Chair LANDRIEU. So thank you for stopping that headline from being printed.

Mr. LOPEZ [continuing]. They were not going to do large in my house. You know. They might be able to do it somewhere else. But yes, the Small Business Administration, as far as where offices were, we had to be able to find the—and we were. You know.

And I can tell you right now everyone is pleased with the schedules. Everything is moving forward. So there are no concerns anymore as it pertains to how that works.

But I visit with a lot of the Federal agencies, talking about small business and the importance of them. I think we have a long ways to go in educating the procurement officers of the importance of using the small business programs because that creates jobs, which then creates access to capital, which then creates an economic engine, which then creates the quality of life that everybody is seek-

ing. So when we are not being able to give contracting opportunities to small business, it causes a problem.

The other thing I am hearing is corporate America. You know, corporate America is not necessarily interested in paying their bills on time. So they are asking small businesses to accept a 60-day pay, a 90-day pay. And of course, cash flow is the heart and blood of a small business. So when corporate America is asking them to delay their payments because they need to balance, increase their balance sheets, it causes some real strain within the communities.

So we are working very closely with all the community leaders. We have a new governor. We have a new mayor. We are all kind of in sync with what we need to do as it pertains to being strong in the message of small business, but those are the things that I am hearing.

Chair LANDRIEU. Okay. Mr. Cadena, and then I will get Mr. Nelson and then Mr. Goldberg.

And I am sorry. Wait. Let me see. Senator Shaheen had a follow-up question, I think.

Senator SHAHEEN. Well, actually, it was just a comment. I do not know if any of you have seen the New York Times today. They had an article about the State of Connecticut. Nobody here is from Connecticut. Greta used to be.

Ms. JOHANSSON. Sort of.

Senator SHAHEEN. So I do not think I am stepping on anybody's toes.

But what got my attention; it was about the economic challenges that the State is facing today, and it pointed out that one of the challenges is that the economic strategy had been focused very much on large corporations as opposed to small business and that most of the jobs, new jobs that are being created, are being created in small business. So it bears out what everybody has been saying about the importance of the work that you do, and your story about who was renovating the building brought it to mind.

Chair LANDRIEU. Thank you for sharing. We will make sure we get that article circulated, but continue.

Mr. CADENA. I wanted to echo what Mr. Lopez was saying. The 8(a) procurement program is very good. Our 8(a) contractors are really very good contractors, and they do struggle trying to get procurement.

As far as in Nevada one of the biggest issues we have is—I have sat down and have talked to almost all the lenders—we have the highest foreclosure rate in the country; we also have the worst economy in the country. And one of the things that is happening is we have businesses that most of the homes that they live in are worth half of what they paid for them.

So when they go to your friendly neighborhood banker, even though their loan may cash flow. You know, we ask three things at the SBA: How much money do you need, what are you using it for, and how do you pay it back? So we are cash flow lender.

However, having come from 18 years of being with the FDIC, I understand conceptually that you need to have usually from a prudent man theory, that you have collateral. Well, if your collateral was a \$225,000, only worth \$125,000, all of a sudden now you do not have any collateral.

So the loan, even though it may cash flow, the lenders are concerned. Two things happen; we have foreclosures or short sales. And if they have not foreclosed or short-saled, they are concerned that that is what is going to happen.

Chair LANDRIEU. I think this is a very serious issue. We actually had a whole roundtable on the specific issue of the deflation, or the devaluation, of commercial real estate. But it is also commercial and residential, and when you think of that commercial real estate and residential real estate being the collateral that is funding the small businesses in this country.

And Senator Shaheen, we have got to find a way forward on this. It has got to be a major policy shift because if we do not give the banks some relief, the regulators some guidance about how to do this, I do not see how this recovery ever gets its footing because it just becomes a self-fulfilling prophecy.

I know that this is heresy in some financial circles, but we should all become cash-flow lenders for right now, to get ourselves moving, because if you are trying to lend on the value of real estate we are just not going to be lending. And then the recession gets worse.

You have got to lend on good ideas, on hope, on cash flow and not on the value of the house you live in, or the shopping center that you are occupying. There has got to be some policy shift at a major level. And it is going to be a battle between those of us that are promoting this more aggressively, but a risk worth taking because in my view, without taking some of these steps, we just cannot get ourselves out of the hole.

And we just keep digging deeper and deeper and deeper. You cannot get the loan. You cannot expand the business. You cannot create the job. Therefore, then no one has the money to buy the house. The house then stays on the market for another year and goes down another 13 percent.

I mean do you see what I am saying? It is just never-ending.

And people do not realize, I think, what real estate has become for the United States in terms of everybody's net worth, your equity, what you use to leverage.

And when it is pulled out from underneath you and then the banks will not lend on your smart idea, they will not lend on the fact that your product actually has a very bright future, and they are only lending on your real estate and your collateral, you can see where we are—not going very fast, very far.

Go ahead, Mr. Umberger.

Mr. UMBERGER. Some comments along those lines—sorry.

We saw the downturn. We saw the numbers, the loan numbers go down. We see them start to creep back. And then we see, because of the Jobs Act, the first quarter of this fiscal year 2011, tremendous growth, and we continue. There was a little bit of a dip in January, but it is coming back.

So the lenders are using us more and more. They are using us, I believe, to get over some of this risk adversity or risk-adverse nature of their analysis. But we are obviously seeing a lot more community lenders coming back into the game.

So when the large nationals dropped out, and they were basically doing credit scoring and a lot of that stuff that was producing, in

my district, a couple hundred loans a year for one particular lender that did one last year. You know. And a lot of that has gone away. The community banks have stepped up, but there is still a huge gap.

And it is tough to find, other than a community lender, somebody that is willing to come in and look at a deal that has been kicked to the curb because the other banks want to get their cash back, and now they have a technical default because of some ratio issue. And we all know sales are down and those kinds of things. But they can only do it to a certain extent.

In our district, a small community lender beat out and in January 2011 was the number one lender. The number one lender who had been in first place for five years prior to that held a team meeting and said do not ever let this happen again. You know. So they wound up one and two.

But that small community lender produced about \$11 million in loans to deals that would have otherwise, possibly, just been let go for a need for cash.

So I think when all is said and done we have a good—we were seeing some positive signs, a lot of it because of the Jobs Act, in the numbers of lenders that are coming back and the number of loans that are produced, but there is still a large gap in the micro-lending Main Street arena.

Chair LANDRIEU. Mr. Goldberg.

Mr. GOLDBERG. I would like to discuss the issues that we are seeing in Northern Ohio.

Chair LANDRIEU. Try to speak a little bit closer. Yes, the two or three things that you are seeing.

Mr. GOLDBERG. But before I do, there are two issues that were raised, and I would like to address those real quickly.

One was that designated driver that Linda brought up and the issue with community banks. Community banks do not do 50 percent of all the loans in Cleveland, but as Steve had mentioned, they are the ones that take the time to do the due diligence, kick the tires. They do not do the credit scoring.

So the question is how do you get them to use the program since they are the ones that have the time and the inclination to do the real due diligence, the old-fashioned credit due diligence that the large banks used to do, but the large banks now have shifted to credit scoring, a very quick and easy way of proving or declining a loan.

What has happened in Ohio; a number of former bankers from large banks have left these banks and become very entrepreneurial and developed their own company to be the back-room provider for these community banks.

Chair LANDRIEU. That is a great concept. That is exactly what we want to talk about, Jeanne, is that back-room entrepreneurship opportunity.

Mr. GOLDBERG. It has worked very well. It has brought on a number of community banks as well as credit unions that never used our programs before. The community bank makes the credit decision and does the due diligence, but the back room with regard to our regulations and making sure the loan is booked properly, et



cetera, is handled by these former bankers that formed the company and know our business.

Chair LANDRIEU. What is the name of their company? Do you know?

Mr. GOLDBERG. Well, there are about two of them. I am sorry I do not have the name. I could let you know.

Chair LANDRIEU. You could get that to our staff, please, so we want to maybe use them as a model.

Mr. GOLDBERG. Definitely, I will do that.

So that was my quick comment on that designated driver community bank issue.

Senator Shaheen mentioned economic strategy. Typically, in Northern Ohio, communities have economic strategies to bring in large corporations, and they forget about the small business.

We went out to a number of communities, and the one that stands in mind is Youngstown. And it has gone through a number of mayors, in Youngstown, where we approached them. And Youngstown traditionally has been a fairly depressed area, hard hit by the economy, not just this recession but traditionally.

We went out and talked with the mayor and city council, their economic development director, and developed a program where they would offer similar things that they do for large business to small businesses, for small businesses, with one exception. They added a real sweetener to this.

We told them that the problem a lot of small business have of qualifying for an SBA loan is an equity issue—where do I get enough equity, so my leverage is not too high and scares the bank—because they could look at cash flow and get cash flow, but equity is very important. So we discussed the issue of supplemental equity.

So the city came up with the funding for what they call a performance grant, that if they take technical assistance from the Small Business Development Center in Youngstown, develop their business plan, their business model, then take that to a bank that has joined our initiative here for Youngstown, the bank reviews it and approves it. Then the city will provide supplemental equity in the form of a performance grant that is forgiven over a three-year period.

And those city funds are put on standby and subordinated because that way, according to our regulations, if they are subordinated and put on standby with no payments made we can consider that as equity. So that is why it is called supplemental equity.

Chair LANDRIEU. Very interesting.

Mr. GOLDBERG. And it is forgiven a third, a third, a third, and there are job creation requirements.

Chair LANDRIEU. Very interesting idea. And for cities that have very limited options, that would be a very attractive model because these cities, they look at themselves, and the mayors: Where are our jobs going to come from?

They are not going to come like Superman flying in. We have got to create them here. And so, you have got to sort of believe in your city to kind of get things started again.

I could actually see this model working. So please send us the details on that as well.

Mr. GOLDBERG. Oh, I will do that.

Chair LANDRIEU. And then I want to get everyone. So you have one more thing?

Mr. GOLDBERG. Okay. Oh, on this economic model, the city leveraged their \$5 million that they put in over the course of time to a \$20 million investment in small business in the city, with our funds and the small businesses were required to put funds in, and in Youngstown we only had a 2 percent default rate per year on those.

Chair LANDRIEU. That is terrific because it is modeled with not just giving money out to a small business, but the small business has taken the technical advice; they have gotten the training, et cetera. So there is a good reason to believe that they will be successful.

In fact, if my staff will help me, did we not put a billion dollars in this Jobs Bill to start or to support programs at the State and city levels, like this? Who knows about that?

Why don't you just sit up there and say something about this?

Mr. GILLERS. This is the—in the Small Business Jobs Act—

Chair LANDRIEU. Tell them who you are, David.

Mr. GILLERS. David Gillers, and I work for Senator Landrieu, Chair Landrieu.

The State Small Business Credit Initiative, which is part of the Small Business Jobs Act, it is a very similar idea. It basically allows States that have either collateral enhancement programs, which is similar to the equity piece you were talking about, or capital access programs, and it actually provides a grant from the Treasury Department to individual States. Every single State who had filed an intend-to-apply has now actually applied to the Treasury Department for this program. About 11 States have already received funding for it, and Ohio has already applied.

Chair LANDRIEU. So while the money went to the States under the way we designed it, there is absolutely no reason that the cities within those States could not be working.

Do any of you all have a model?

Okay, Lynn, and then I want to get to Pravina. Okay, go ahead, Lynn.

Ms. DOUTHETT. In the State of North Carolina, we received \$46 million through that program, and the NC Rural Development was the State's program that had actually utilized this same model in a previous life. And right now we—

Chair LANDRIEU. Right. They testified before our Committee.

Ms. DOUTHETT. Right. They have over 15 banks participating, and I think to date they have probably—I think there is an estimate in terms of like \$1.4 million that has actually been leveraged right now out in the marketplace, which has been in a very short window of time. So they have recruited a lot of lenders who had utilized a program similar to this in the past. So it is very well received.

And in addition to that, the State also is using a Biz Boost program that SBA and the UNC network have fostered. So they hired these Biz Boost counselors, and as a result, we have actually funded \$48 million in new lending. There have been over 5,100 jobs created and over \$213 million—

Chair LANDRIEU. And what are Biz Boost counselors?

Ms. DOUTHETT. Biz Boost counselors, this was a concept that the State actually came up with, and they were working with businesses who actually had the potential to create a large, significant number of jobs in a short period of time because the funding. When you all raised the program limit as a permanent, that really addressed a demand need in the marketplace, and so they wanted to work with those businesses that were going to be able to create jobs quickly, and that is what they targeted as their market.

So there were over 1,300 small businesses that were immediately assisted in this 16-month period of time, with the net effect of 5,100 created/retained over this period. It is a very good model to consider, going forward, in how to leverage.

Chair LANDRIEU. That sounds very interesting and very well coordinated in how to leverage the Federal action to get something really going on the ground.

Mr. Nelson, you had—

Mr. NELSON. I was going to address your initial question regarding the three challenges. You know, Massachusetts is fortunate, where the economy is healthier than most of the States, but we are still experiencing issues similar to what was mentioned by my counterparts.

I wanted to specifically address two separate spectrums where I see challenges in Massachusetts, and one is on loans to underserved markets and loans to minority entrepreneurs. In Massachusetts, we have done a phenomenal job with our 7(a) loan program and our 504 loan program. We are one of the top States in the U.S. with delivery. We are probably fortunate because we have 150 banks that do business for us in Massachusetts, but when we look at the loans to minority entrepreneurs and loans to underserved markets, it is half of what it used to be.

The SBA, through a couple new loan programs—the Small Loan Advantage and the Community Advantage Program—it is intended to try to address that and to fill those gaps, but it is going to take some time. And it comes back to where we started off, with the staff that we have and the challenges that we have, that there is not enough people and not enough hours in the day to do everything that we need to do in order to make the impacts. So that is one challenge in Massachusetts.

Now on the opposite end of the spectrum, Massachusetts is such an innovative economy—high tech, high growth, life sciences. You know, there are so many phenomenal ideas, and I come across so many young entrepreneurs who are looking for early-stage seed money, who are having difficulty and cannot get the access to that seed money. There is a tremendous potential for job creation if we can get that early-stage seed money into the hands of those entrepreneurs on the innovative side.

Chair LANDRIEU. Do you have any ideas about that early seed money and where it could come from?

Mr. NELSON. Well, I know like through the SBA, and the President announced through the Startup America, that there is going to be \$2 billion SBIC funds. One is targeted to the early-stage seed fund, but it is not here right now. These businesses, these entrepreneurs, they need the money now. They need the access.

Chair LANDRIEU. Okay.

Mr. NELSON. We need the jobs now.

Chair LANDRIEU. Pravina.

Ms. RAGHAVAN. So to go back to the designated driver concept, one of the things that we did was with the money that the State got, which was \$55.3 million for the State of New York. We have actually been working with the City of New York. When our programs changed, they actually, complementary with the Office of Comptroller, complemented the SBA program.

So the State is going to be doing a similar thing, and actually we are sitting down with them next week to start architecturing that program because what we found out from the SBA, being in New York, New York State is huge. As you know, we have the city. Everybody knows about that, but we also have Mid-Hudson.

And we took a program that we did with just county banks. So these are small community banks that serve a very small area, and we have a second look program. So what happens is if you are an entrepreneur and you get a no from your bank, you put it up online. And then we have 12 banks that look at it, and they actually pitched in a fund where each one contributed about \$10,000 to a fund.

Chair LANDRIEU. Great idea.

Ms. RAGHAVAN. And then the fund actually goes ahead and makes that loan, so depending on what your rejection.

And what happened when we originally announced it is they were getting very little loans coming through, and we asked the question, and the question became people never went to their original bank to begin with. So once they started going, the banker would look at it because it is a community bank, and so we can fund this without going through the second look program.

We announced it last year, actually this year, with the City Council of New York. They are doing the same thing. So now we have two second look programs that do exactly that.

So now the State is saying maybe we do the same thing on a statewide with the new funds that we brought in and using our SBDC network. And the City of New York has Small Business Solutions to use that network to provide the technical assistance. So one of the boxes on the application will be: Did you get technical assistance before putting in your second look application?

Chair LANDRIEU. Okay.

Ms. RAGHAVAN. And just to address seed funding, we have been working with the entrepreneurship campuses in New York, so Columbia, NYU. They do business plan competitions with their entrepreneurship, and some of these have very good endowment funds. So we gave over \$750,000 to entrepreneurs through NYU as well as Columbia, with their assistance, through their business plan competition.

So we have been looking at that and trying to expand that into the SUNY network, asking these universities that have the graduates that have already gone through, who have new technology ideas, to bring it into a business plan competition to give away some money, either between \$50,000 to \$250,000.

Chair LANDRIEU. That is a great model as well. I am just really thrilled with, Jeanne, what they have started.

Tell me your State again. New York?

Ms. RAGHAVAN. New York.

Chair LANDRIEU. They have called it a second look program. So if you get turned down by your bank, you go online and put basically your information up online, and they have lined up eight or so other banks that take a second look at that loan. And something like that is really terrific.

And then the other thing that you shared which I want the staff, of course, to make notes on, is the opportunity to link with universities that have strong business entrepreneurship programs.

And we should identify—I want our staff to identify what universities in the country. So give me the top 100, and I would like to send them out a letter, just saying these are some things that we are hearing are going on in New York and at Colombia, maybe you all could model, because if they are training entrepreneurs and they have some of the smartest kids in America going to these schools. And they are training the entrepreneurs, and the problem is they have a great idea but they cannot get money. Maybe some of the government programs that we are funding by being creative can help leverage.

Now some of the schools are wealthy and have these endowments, but a lot of the business schools do great work, but they do not have the endowments to give \$50,000 to every graduate to get their business started.

Senator, thank you for joining us, Senator Ayotte. This is a very informal roundtable. We are getting a plethora of ideas on some of our issues.

So Mr. Cadena, do you want to add to this?

And then I am going to finally get to my second question. We have only had one question and we have talked it for almost 45 minutes now.

Mr. CADENA. Yes, I wanted to get back to the microlending in my State. First, I got there 10/10/10, so it is easy for me to remember when I got to Nevada. But the first thing I wanted to do is bring together our microlenders, and we did not have any. We had one and one that was kind of in trouble.

So developing microlenders, alternative lenders, is really something that is difficult, but what I found out is that there is a lot of people that will help us, like the casinos. You know, in Nevada we have the entertainment industry, but we also have the mineral industry now, and construction has died. So we are trying to pull them into play.

We also in Nevada have a very high minority rate, and we are not reaching them very well. So we have the number one SCORE counselors that come out and help folks, but we did not have a lot of folks that spoke Spanish, and we have 33 percent of our population that spoke Spanish.

So what I have done is I have gotten together with the councils, the consulates, and I am helping recruit Spanish-speaking folks by getting on the radio with the Mexican consulate and the Spanish consulate and the Costa Rican as they have their radio programs, and try to bring them in, so that we will give them the information. We have the information in different languages, and we share it with—we can share it with whoever, whichever consulate, so that

we can get more of these counselors because without the technical assistance they are not going to get in.

We need to develop more alternative lenders until there is a regulatory respite or change in things because any kind of foreclosure, or what have you, will stop people. So we are looking in our State to get some kind of respite.

I am talking with the FDIC, the OCC and the Federal Reserve. We are going to have a roundtable, frankly, hopefully, within the next month in my office to talk about how we could do something specifically.

But for help in the small businesses in the minority communities that have the language problem, which I understand, it is great when they come in and they speak Spanish because I can at least speak Spanish to them. But when they come in, in Chinese and so forth, then we work with them. But at the end of the day it is our community, and it is the responsibility of our communities, and that is what I do when I talk to our folks. It is our community of Spanish-speaking folks that are Spanish-speaking Americans to help our own Spanish-speaking folks.

Chair LANDRIEU. Well, that is excellent. And it really is a barrier.

We had an excellent presentation, I recall. She was sitting right where you are, Mr. Lopez, from the Vietnamese—no, the Asian American Chamber, and they said they are having terrible difficulty with language barriers, accessing the government programs.

If you think about that Asian community, a broad range of different countries represented, the power of the entrepreneurship in that community, as well as in the Latino community, but with a Latino community more and more people are speaking Spanish. It is not that. But when you think about these Asians, it is a very serious barrier, and we are really short-changing our own country by not thinking carefully through that.

Let me go to my second question. Then I would love Senator, if you want to—we have all said, Senators, a few words—if you want to add anything.

I want to switch, if I could, subjects—the HUBZone, as you are very familiar with the HUBZone programs, and there are certain areas of the country that are in HUBZones. Some of you might represent HUBZones in your districts. What kind of oversight does your office provide to firms claiming to be in HUBZones, or how does that work with your offices once a HUBZone firm is awarded its first contract?

The Louisiana District, I know this, conducts a site visit to ensure the firm is actually located in a HUBZone and it is what it claims to be. So can we have a conversation about that?

Greta, you were the first one up, so please go forward.

Ms. JOHANSSON. We had a very recent case that we were involved with, and it actually precedes becoming a HUBZone firm, where an applicant, to become a HUBZone firm, had contradictory information in the application file. It was difficult to substantiate the place of business. And we were asked up-front from our folks in headquarters to do a site visit, so that we could make the determination or add some credibility to either side of it, either to the business really is located there or they really are not located there

and it just a front. So that is one of the ways that we are helping with oversight is to address questions before someone is awarded a HUBZone contract.

And we also perform both a set number of assigned onsite reviews of our approved HUBZone firms as well as additional site visits as we are able, where we do a little more than just confirming place of business. We will also confirm payroll records and the kinds of things that support eligibility for the HUBZone program.

Chair LANDRIEU. So one of the challenges this Committee needs to be mindful of, the more we cut back staff in these offices, the less oversight. And if our goal is to narrow down on fraud and eliminate waste, fraud and abuse, you do not do that by waving a magic wand and breathing air. You have to have actual people focused on fraud detection, et cetera.

Go ahead, Mr. Dickson.

Mr. DICKSON. As a small business owner, obviously, there are only three ways to extend your services or products: You can sell more domestically, you can sell more by exporting, and you can sell more to the government.

And Greg was talking about it earlier. These government contracts for small businesses are very, very important. HUBZone is part of that. You know. The last time I looked there was only like 1.2 percent of all the small businesses in the United States even signed up to do business with the government. We need to be out recruiting and training businesses to do business with the government, to include the certification programs and the self-certification programs.

We do a lot of procurement in Eastern Pennsylvania—NICPs, Defense Logistics Agency, the Army Corps of Engineers. It goes on and on and on. We are very active in the procurement side.

And we have HUBZones. We have 8(a)s, and we have service-disabled veteran-owned businesses throughout Eastern Pennsylvania. And we just came across a HUBZone business just about a week and a half ago that was a fraud. It was the HUBZone—

Chair LANDRIEU. How did you discover it?

Mr. DICKSON. Well, it was in one of our drive-bys.

Chair LANDRIEU. So you went by the look.

Mr. DICKSON. Literally, I sent my—I always send two people out because of the HUBZones are in some pretty tough areas, to make sure somebody does not get hurt or whatever.

So I always send two people out, and one of my leads and one of my government contract employees found this place that looked like it did not smell right. Right?

So they checked it out. We are not investigators, but we are trying to gather some facts.

And then I went out again with the lead to take a look at it, and the HUBZone business, quite honestly, is being run by this person from his \$400,000 house. All right?

Chair LANDRIEU. Okay. That is good.

Mr. DICKSON. I contacted the—

Chair LANDRIEU. I mean that is not good. That is not good. Do not say the Chairman said that was good, but I am glad we caught them.

Mr. DICKSON. I contacted the IG, gave them the information, and they love it. My guess is by the time it is done that person will end up going to jail for fraud, and quite honestly, they should.

We have a lot of businesses out there that can do business with the Federal Government if we teach them how to do it. I was a defense contractor after I was a program manager in the Army. All right?

Doing business with the government is different than doing business with commercially. All right? And we have to teach these businesses how to do that.

There is a ton of business out there to be had by small businesses, but we have to teach them how to be a HUBZone contractor, how to be an 8(a) contractor, how to be an SDB. You know the new women-owned program. I mean there are great programs out there, and it is good for the United States business. It is also good for the United States government.

Chair LANDRIEU. Okay. Mr. Lopez, did you want—I am trying to get everybody.

But I just want to say for the record that the Federal Government purchases a half a trillion dollars in goods and services every year. And if small businesses could get more of that, of those goods and services, (a) the taxpayers in many instances get the better products or best products or better technology, cutting-edge technology.

And those entrepreneurs—think about it. If you are a business with three or four people and you land a \$10 million contract or a \$5 million contract, you are not going to be able to absorb that work into your two or three employees. You are going to go out and hire six people or seven people to meet the terms of the contract that you have just received.

So you are really, really—sometimes a large business, they get a contract. They will absorb the contract in their current workforce.

Now you can argue it helps retain jobs in a big firm, but it actually really creates extraordinary growth in a small firm that might receive a good contract. They have to go out and actually execute it, perform it.

But go ahead, Mr. Lopez.

Mr. LOPEZ. You know, I was going to add that all the offices go out and do site visits and look at those, and there is a lot of great companies that are in HUBZones. You know, there is a lot of good small businesses that are doing it right.

One of the things that we are doing in Colorado is trying to educate the procurement officers for the Federal agencies to understand the importance of a HUBZone contract. It is not just another goal that they are trying to meet, but it is more of making sure that they understand how to service that contract and help us, along with them, to make sure that the people that are actually doing the business are the small business owner or are the small business that stood up for it to be at the HUBZone level, so that we do not have that continued black eye as it pertains to the program itself.

So it is bringing together as many people as we can to understand the importance of the HUBZone program and how we can best leverage it to be successful.



Chair LANDRIEU. Wonderful. Okay, Mr. Goldberg. I am just going to catch you all as quickly as I can, and then I would like to ask the Senator if she wanted to add anything, or a statement.

Go ahead.

Mr. GOLDBERG. I guess there is an advantage sometimes to being the old guy in the room. I think I was a district director when the HUBZone legislation was passed, and that was probably sometime in the late 1990s. And at that time our office had 36 people, approximately 36 people. Now we have 11.

And when that legislation was passed, I designated one of my managers as the HUBZone police. That individual went out to every company that applied to make sure that it just was not a post office drop; it was not an answering machine, the old-fashioned answering machines before things got sophisticated.

But as the office shrunk and tried to streamline, we could not dedicate a person to be the HUBZone police. Now what we do is like everyone else in the agency. We do a random sample.

A couple of years ago, we went a little beyond the random sample because one of my BOSEs, Business Opportunity Specialists, that deals in government contracting, had heard something about some company in Canton that was a HUBZone-certified company. So I said, tell me what he had heard. I said, go down and investigate.

So he went down, and he found that there was a shingle out, but no one was there. Then he went across town out of the HUBZone, and they were there.

We reported it to the IG, and just like our office had shrunk, the IG's regional office in Chicago had shrunk. And his comment was—and he is a really good guy to work with. He said, I do not have the staff, and I can only use them when there is loss to the government.

And here, because no contract was involved at the time, there was no technical loss to the government.

So what I did then was the next best thing was I called up a friend of mine who happened to be the special agent in charge of the FBI in Cleveland. He had somebody running Canton for him. He said, Gil, what if I call up Canton, have the agent there talk to them and put the fear of God in them?

So the agent went down and talked to the company, and it worked for a year. Now I have just found out that the IG is investigating and bringing them up on fraud charges.

Chair LANDRIEU. Well, that is a very important point, and again, you have got to maintain a certain amount of staff level to be able to do this work and to make these programs effective. Otherwise, you are just really running programs that cannot be effective, but they are valuable and can be. But if you undermine them so much, you just do not get the benefit from them.

Go ahead, Mr. Umberger.

Mr. UMBERGER. While we are on fraud, waste and abuse, and talking about some of the staffing issues, we all know we do HUBZone site visits. We had one last year where one of my Business Opportunity Specialists was out in Western Maryland. The entire county is a dedicated HUBZone. Well, when they go to town where this business was supposed to be located, they had to actu-

ally call the business owner to come to the purported location to try to verify that they did have some bona fide location and existing business.

But there are a couple things that are going on in my particular district. We have right now 350 8(a) firms that are certified, and I have 3.5 full-time equivalents handling all those cases. That is roughly, on average, 100 cases apiece. And you know the number here, anywhere from 40, 50, 60, but I only have—well, now I am down to 12 employees, and there were 33 before I got there 5 years ago.

But to spread out with lender relations and capital access and marketing programs and promoting the programs, I cannot take and designate more resources there. There has got to be something wrong with the formula here.

Chair LANDRIEU. Right. This is not the time to be slashing these budgets. As I said, we have gone from 1,800 people in President Bush's Administration down to 900 in President Obama's Administration. That is a 50 percent reduction at a time when the challenges are, you could roughly estimate, at least 5 times as great, the economic challenges, if not 10 times as great, based on the atmosphere that we are all experiencing. So it really is a real challenge for us.

Lynn, go ahead.

Ms. DOUTHETT. I can tell you that in the State of North Carolina 85 percent of our State is rural, and with the economic situation there we have quite a few designated HUBZones. We have 441 HUBZone-designated firms that have been certified, and I have gone from a staff of 35 to 15. We, because we have 9 military bases, have received well over \$5 billion in contract spending in North Carolina, and over \$400 million of that has gone to HUBZones.

So there is opportunity for waste, fraud and abuse, and my folks who are out in the field to go out and do these onsite reviews have actually within the last year uncovered two firms that were not actual certified HUBZones. The problem is that they are in these rural areas and they think that nobody is going to come and check on them.

Chair LANDRIEU. And they need to know that we will and that is important to—

Ms. DOUTHETT. Exactly.

Chair LANDRIEU [continuing]. Spend taxpayer money wisely.

Ms. DOUTHETT. Exactly. So within the last year we have actually—2 years—we have actually gone out and reviewed 135 firms, but that is woefully under what we should be doing, considering the amount of dollars that are going to these HUBZone firms in our State.

Chair LANDRIEU. Okay. Let me ask Senator Ayotte to say anything she would like to.

**OPENING STATEMENT OF HON. KELLY AYOTTE, A U.S.  
SENATOR FROM NEW HAMPSHIRE**

Senator AYOTTE. I wanted to thank Madam Chairman for having this hearing, appreciate it.

And I also wanted to welcome our District Director, Greta Johansson, here. You know one thing we share is that we are both

relatively new to our position. So appreciate what you are doing in our State.

And Senator Shaheen and I actually were privileged to co-host a recent event called a Matchmaker Event in the State of New Hampshire that I think I got very good feedback from our small businesses on, to connect small businesses to Federal contractors, to build those relationships, and I think that was very helpful.

You know, one of the things that I cannot help but thinking when I heard what you had to say, Mr. Goldberg, in this discussion about the HUBZones, one of the things that I would like to hear your insight on is do we need to give you also greater authority and greater tools in terms of if someone is caught in a situation like you have identified, Mr. Goldberg, that you would have the opportunity to put them on a list where you are off—no more contracting, no more receipt of the funds.

I think I get concerned often that even the bureaucracy you have to follow in trying to eliminate those who commit fraudulent behavior may be overly burdensome. And can we help you by giving you some tools here or more authority on your end to deal with this fraud and to cut people off sooner and in a more expedited fashion? I would love your insight on that.

[Laughter.]

Chair LANDRIEU. That is a great question. It has prompted a lot of room to talk.

Senator AYOTTE. Because you know that is something that we could address in this Committee and make sure you have those tools and you have the authority to do what needs to be done too.

Chair LANDRIEU. All right. Let's respond to that.

Go ahead, Mr. Dickson.

Mr. DICKSON. You are sort of darned if you do and darned if you do not. All right?

Part of our job is to help recruit those businesses to do business with the Federal Government and train them and also regulate them.

I like the idea, personally, about having that authority to be able to say if you are running a fraudulent business on a HUBZone or a women-owned business or a service-disabled veteran-owned business, or even a small business that is supposedly small and you find out it is not by the NAICS codes, that we could do something a lot more expeditiously than we do. All right.

That is in fact one of the problems. It just takes too long to act on it, and the bureaucracy in order to act on it takes a long time. And then by the time you get to the end of the road, a lot of these companies, nothing happens to them anyway. So there is not a—as Gil said, there is not a fear of God in them because they are going to get—

Chair LANDRIEU. Well, we need to hone down on that and why, when you say the bureaucracy is not working fast enough. It gets back maybe to that the prosecutors themselves do not have the staff necessary to prosecute. That may be one thing. Or, it could be something else. I do not know.

And Ms. Johansson, if you would comment, I am going to slip out and have my Brian Van Hook step up, but we are in very able hands to finish this roundtable in the next 35 or 40 minutes.

It has been excellent. Your comments have been terrific, your suggestions. We really appreciate getting a better feel for what our district offices are actually up against, what your challenges are and what you need as we prepare for these budget discussions, but as we prepare to run the best agency and provide the oversight we can to the SBA, the best we can.

So Greta, and then I am going to slip out. Thank you all so much.

Ms. JOHANSSON. Thank you. I just wanted to follow up on the is there something that we could do. And I agree; it is sort of yes and no. There is an upside and a downside.

On the one hand, the last thing we want to do is stall someone who—if we are mistaken. I mean, how much investigation can you do to know is this a legitimate HUBZone firm? That is a challenge, and that is a challenge with our staffing levels and with the kinds of information you need to have access to.

But there, it would be very beneficial, I think, if we had some sort of fast way of throwing up a red flag that could launch enough of an investigation to figure out what is it we would need to confirm, yea or nay, without disheartening anyone who belongs in the program, without risking a contract that should be awarded, if there was some sort of a fast way that we had the ability to send up an alert. And that is something that we ought to be able to do internally, subject to resources. You would think that we would be able to find a way to have knowledgeable enough staff in both the districts and in headquarters to be able to identify a way to make that quicker.

Before we implemented that, I would want to feel comfortable that we are not going to either overburden ourselves or discourage legitimate firms, yet still catch, some sort of an early warning way to catch, those ones who are corrupt because it does not really take all that much. It only takes one or two bad contracts to firms that should not have gotten them to seriously damage the viability of what is otherwise a very good program.

And it discourages the contracting officers from even trying to do HUBZone. I mean just it is bad all around, to have contracts misappropriated.

I am not sure. A lot of it does seem to come down to resources. How would we go about doing that in a way that was both effective without being destructive or burdensome?

Mr. VAN HOOK [presiding]. And Ms. Nelson.

Ms. NELSON. I just had a thought just before she started talking. We have a similar model in that our lender oversight folks send out reviewers, auditors to do reviews periodically, and if they find problems within a loan that might jeopardize the guaranty at purchase time, should it be, it is flagged within our system.

I do not know exactly how you relate that to the HUBZone, but if there is a flag, a contractor who is looking for a HUBZone, at least we would have some leverage to get their attention to come in and prove to us that they are who they said they were and a legitimate business. We call it a Guaranty Repair Flag.

Mr. VAN HOOK. And Pravina.

Ms. RAGHAVAN. I was just going to add that I do think it would be great to have a list. And I agree with both colleagues; it is a good thing and a bad thing.

And one of the good reasons is in the State of New York as well as the City of New York, the MTA, we have some major agencies that do business with us and do business with our HUBZones. They actually look at our list to figure out whether they are real bona fide firms. And to be able to put someone on a list, so that they are not only defrauding the Federal Government but also the State and the city, would be a fantastic thing.

And one of the things we have been trying, back to the original question, is how do we get to make sure we prevent fraud. Actually, we have been holding our training sessions in HUBZones. So the firms actually have to be physically present in their HUBZone when they get trained. So their orientation meeting actually happens in their place of business at the HUBZone, but granted, it has to have staff to do that.

And we actually sometimes do it with the city and State. We bring them in with us because then you can learn about our programs as well as the other two. When you look at the State of New York, there is quite a lot, but the city alone has quite a few programs. So it would be nice to have a great list to sit there and go: You are not going to defraud us on three different levels.

Mr. VAN HOOK. Yes, Gil, if you wanted to make a comment, and then I would turn it back over to the Senator.

Mr. GOLDBERG. Okay. I think the Senator hit the nail on the head. I think we do need more responsibility and more tools at our disposal. Again, as I said, being the old guy in the room, not only do I remember when the HUBZone legislation was rolled out and we rolled out the program and I had a big enough staff to have HUBZone police, I have seen that happen in other areas of the agency as well. But we have to have the staff to go along with the authority and the responsibility because if we do not have the staff then we end up in a situation where it is on the books that we are doing it, but in reality we are doing it by putting a Band-Aid over it. And we really need that staff to make it work.

Mr. VAN HOOK. And Senator, did you have a follow-up?

Senator AYOTTE. I do not know if anyone had any additional comments on this issue. I did not want to cut anyone off. It is important.

Mr. VAN HOOK. Okay, gotcha.

Greg.

Mr. LOPEZ. You know, I think it is important for us to remember that when the contracts are awarded to the HUBZone companies they are awarded by the procuring agency, and so SBA does not have the authority to determine who gets a contract and who does not get a contract. And I think that is why it is very important when the SBA is working very closely with the procurement Federal agencies to understand the HUBZone program, and it is contract oversight that really falls within the realm of the contracting officer. We are an extension of that process by ensuring that they are meeting the eligibility, but we really need to work in partnership.

And I think that message has yet to really resonate within the procurement arms of some of the other agencies, but they are starting to hear. For the last 18 months, 2 years, we have been going out. So they are starting to pay a little bit more attention as to the importance of the HUBZone and how we are looking at them.

So I think we are making a lot of progress, but I really think that at the end of the day the stronger we build those relationships with the contracting officers that actually do the oversight of the contract, we will be able to really minimize a lot of the fraud, waste and abuse, if we all work together.

Mr. VAN HOOK. Mr. Umberger.

Mr. UMBERGER. Just a quick comment, that whether it is a HUBZone determination based on a site visit that it is a fraudulent firm, or what have you, or an 8(a) firm that comes up under an annual review that it is determined that at least in the district's eyes this is a fraudulent firm, rather than what we do now is we put them into a termination process, and the termination process is out of our hands. It is at a higher authority, and it takes time.

I could never, for the life of me, understand if we had made a recommendation for a termination, why is that firm not suspended from further contracting opportunities. So that would be something; I think a tool that we could really use to sink some teeth into this.

Mr. VAN HOOK. And Mr. Dickson.

Mr. DICKSON. Just sort of a final comment on procurement, you know, Greg and I think a lot alike. It is really scary, Greg.

In another life I was a procurement officer in the government for the Army, and it astounds me the lack of understanding that the procurement officers have these days of the small business set-aside programs, to include not only the small business at 23 percent but also the 55 and the 33—okay, 5 percent SDB, 5 percent women, 3 percent HUBZone, 3 percent service-disabled veteran.

If you look at the Defense Acquisition University, you might be very chagrined and surprised to find, since there is 23 percent of all the prime contracts are supposed to go to small businesses in the country, how little the training goes to the contracts officers and their staffs.

I know, like many of my colleagues around the table here, I mean, we do a lot of training in the procurement agencies in our districts as to what these programs are and how to use them because they honestly do not know. I sat in the Union League several years ago, in Philadelphia, and there was a HCA, Head of a Contract Agency. He was wearing two stars on his shoulders, and he was talking about his small business goals. And he said we are doing fine, and he specifically was talking about HUBZone. And it really surprised me because his goal was 3 percent and they are at 1.3 percent. Because they had done better than the previous year, which they were at 1.2 percent the year before, he thought they were doing fine.

And I felt like standing up and saying, General, you do not get it. I mean your goal is 3 percent. You are not doing fine until you have surpassed your goal.

And it was just the mentality: Well, we did better than last year, rather than meeting the goal.

These goals, these set-aside programs are good for the United States. It is good for industry. It is good for the government.

Until these contract officers not only understand these programs, but also as they are looking at their procurement requirements in the one hand, they need to be looking at their actual goal attainment in the other hand and have the authority to be able to say, well, I am going to take this one; I am going to make it a HUBZone. Or, I am going to take this one; I am going to make it a women-owned business or just a small business.

They need to be able to look at that stuff on a daily and weekly and monthly basis. And until they do that, we are not going to get their attention.

Mr. VAN HOOK. And Greta, did you have a comment?

Ms. JOHANSSON. Just a quick follow-up, and it is really only specific to HUBZones is most of what I have heard here today, and my own experience, is the HUBZone firms that were not really HUBZone firms was based primarily on they did not really have a real place of business in a HUBZone. And for much of the country that may be hard to assess before a firm is approved into the HUBZone program, but there are areas where drive-bys are really not difficult. Maybe I am biased because I come from New England and we can actually drive by just about anywhere we need to, and that is not true everywhere.

But some of those things, rather than catching the fraud after someone is in a program or receiving contracts, we may be able to prevent it up front if the primary problem, is in the HUBZone program anyway. The most frequent problem seems to be place of business. That can be checked. And if we cannot do it ourselves, there are resources all over the country, and we all have partners that we work with.

And I am just curious if there is some way that we can do a more effective job before they get in the program. And it is also less public that way, so it is not discouraging for either the contracting officers or legitimate HUBZone firms. I am just curious if that might be an area where we could do better, subject to resources.

Senator AYOTTE. I wanted to thank all of you for being here and for the important work that you do. I, of course, want to give special thanks to our District Director in New Hampshire. We can get around New Hampshire probably a little bit easier than some of the other States you represent, but very much appreciate the work you are doing for small businesses in the country.

My husband is a small business owner. So you know it is always a challenge to start your own business and to grow it, enhance it, and we just want to create a positive climate for all of them to do that, particularly in these difficult economic times.

So I have to run, but I want to thank you all for being here today.

Mr. VAN HOOK. Thank you.

And I guess kind of following up on the discussion that you guys had, I know that a lot of district offices have road shows and kind of get out. But also when we mention the staffing cuts that you guys have had, could you just kind of briefly talk about what, how much time is spent in the office versus how much time is spent on

the road because I know that as the staff has been cut that has kind of limited also the ability to get out and travel around?

So I guess you are closer to me. I will go with you first.

Mr. CADENA. Well, when I got to the office there were four of us in the office and two up in Reno, and we have one of the largest areas to cover. So we are now up to a total of eight people.

Also, in Nevada, we are kind of like the national office based on one thing. We have so many conferences that come into Nevada, and we send people there all the time.

So there is a lot of times in my office where it is literally I am there. And if I am not, somebody else is, and that is one person. So we do cover.

So the reality is it is probably a little over 70 percent of the time we have got people out constantly. Up in Reno, because it is such a large area, I have one guy basically that lives on the road, literally lives on the road. He has his Durango that we finally got him, and he just drives around and goes from small town to small town. But that is an issue, but in our office, more so than anything else is.

And it is great because it helps our training because we do get some wonderful—the one I am looking forward to is there is the WBENC, the women's businesses. It is going to be 4,000 small businesses, a women's group that comes in. We are also going to have the DAC that should have well over a couple thousand.

But it does take a lot of our people's time. So it kind of—yes, we appreciate it because we like doing it and it is high profile. We get to learn a lot. However, most of that time has nothing to do with my district because most of the people that we are talking to are from out of state.

So it does have—we love it because we learn a lot, but we are not really supporting, if you will, our district because we are doing so much.

And it makes sense. It does not make any sense to be sending people from all over the country when you have got an office there. The great thing is just give me a little more staff.

Mr. VAN HOOK. Well, we keep track of that in New Orleans because we are also competing with you guys for conventions. So I think it is New Orleans or Vegas is kind of where folks split their time.

Mr. CADENA. And we both have had different kinds of disasters.

Mr. VAN HOOK. Yes, that is true.

Lynn.

Ms. DOUTHETT. One of the things, we are fortunate in that we actually have three alternative work sites, which means that I have three guys on the ground that cover a territory. One is large; it is 34 counties. And one is small; it is 16 counties.

But our office is set up in a model that works with those folks out in the field, utilizing their time. Probably at least 70 percent of it is on the road because the charge was that we would actually see our loan production increase, our strategic alliances create more workshops and training for both small businesses and citizens, which we have effectively done over the last seven years, using this model.



Where we have a challenge is in the district office because our procurement portfolio is we have 120 firms and we have 2 people to manage the program, and that compliance issue is huge. So even though we can send them out to do some speaking, they have to remain really to do the annual reviews, which is a very time-consuming process.

And as far as myself and our lender relations folks and our marketing people, they are on the road I would say at least 50 percent of the time.

Mr. VAN HOOK. And when you say certain staff travel more than other staff, so there is a certain complex relation.

Ms. DOUTHETT. I would say that the model was that we would transform ourselves into a marketing organization, and do more sales and marketing and training, which we have effectively done. But it is a challenge in terms of the reporting functions and compliance to be sure that we have every I dotted and every T crossed.

Mr. VAN HOOK. Mr. Dickson.

Mr. DICKSON. The SBA actually categorizes the district offices as very small, small, medium, large and extra large. Okay?

Pravina, for instance, is an extra large, New York City, of course. Philadelphia, last time I checked was the largest of the large. All right?

Five years ago, we had 11 people, and we got down to 5. Now I am at 17, which has been a wonderful thing.

We have broken up our staff into teams, geographical teams, and we have taken away silos where I have the lending people, the government contracting people and the marketing people all underneath a lead for a specific geographic area. And it works very well for us. All right?

All the people, I have hired. Everybody has come from outside the government except for my deputy who just got back from Saddam Hussein's palace. He was the DLA Commander in Baghdad for six months. Everybody else came from outside the government, and very entrepreneurial, all the way from people from their early 30s to in their 60s, older than I am. All right?

Their jobs are not in the office. I make them come to the office one time every two weeks for a staff call just so I can see their face and make sure that they know what is going on, et cetera. But they spend tons of time out of the office, dealing with banks and businesses and economic development agencies, and you name it. They are out there networking, counseling businesses, recruiting banks, et cetera. We have three government cars, and we run the wheels off of those babies because I mean it is a big district.

I have got two-thirds of the State of Pennsylvania, and our job is to go out there and penetrate the market with the gospel of the SBA, as to the technical assistance that is out there, that is available, the counseling for government contracting, how do you do that, how do you get capital access, whether it is SBA guaranteed loans or commercial loans or USDA loans. You know, how do you get the money that you need to run your company and to hopefully expand your company? All right?

So our people's jobs are on the road, and they do it. Our staff, and I know a lot of my colleagues' staffs, they do an absolutely excellent job. I am very proud of them.

Mr. VAN HOOK. Okay. Thanks.

I am going to turn it over to Linda, and then I know we have maybe 15 minutes or so. So I am going to turn it over to Diane because she might have some questions. And I have a couple more questions for you guys since the Senator covered some of my good questions, but I still have a couple more for you.

So, Linda.

Ms. NELSON. Okay. One of the things we have done is try to—we are a staff of 11. We are a small office, and we are pretty much at the max by the previous definition. We have had to retrain folks.

For instance, if one of my lender relations is going to Batesville, Arkansas to do a lender training and there is a HUBZone there, she goes by, looks to see if it looks like a bona fide business, may check with the post office. We check water records to see if they have water running to the building. You know most of them need a restroom. We think, anyway, but not in Arkansas maybe.

So we kind of share duties instead of just one person is responsible for doing all of this, and I am sure others have done this too.

But we have learned to leverage our State agencies, and we have an MOU. This is a national pilot, and we are 1 of the 17 States with the USDA Rural Development. They have more money than we do and sometimes more people because they have field agents around their State. And so, we put literature there, and sometimes they serve as a referral.

But the Arkansas Economic Development Commission has recently reorganized their economic developers into industry-specific. So we are going to be training them, and they are in all these different areas of the State more than we can possibly be. I mean we are out. We have three cars. We are out a lot—to alert us when there is something specific.

You know, we sometimes go hold a bank's hand. They do not want to do the designated driver approach, and so we go hold their hands from the application. I have even typed up their closing documents, I am ashamed to say, because it was painful to watch this loan officer doing it, and I did. We will do whatever we can as far as leveraging that.

So I think the main thing is retraining, sharing and leveraging some of the outside resources, including our SBTDC. They will do drive-bys for us in their area because they have six sub-centers.

Mr. VAN HOOK. Thanks.

And Diane, did you have a question?

Ms. DIETZ. Absolutely. I have about 50 questions for you all, but I know some of you have planes to catch, so we certainly will not keep you here that long.

I would like to echo the Chair's remarks and sincerely thank you for coming today. Washington, DC, is for some of you, a train ride and for many of you, a plane ride away, and we certainly appreciate your taking this afternoon to spend with us. We could keep you here all afternoon, asking questions and still have more questions, but of course we will not.

On behalf of the Ranking Member, we do sincerely appreciate your time, and I believe that today's panel is truly a jobs creation panel. So we cannot tell you enough how much this feedback is important to us.

I did want to hit on one question. It is something we hear a lot about in the Committee. It is a primary concern for small business owners, entrepreneurs, and that is the regulatory environment.

And I would love to hear from each of you. One of the fantastic aspects of this panel is that it is so broad. There are many of you from the Northeast. We love the Northeast, and we love the South as well, and there are some wonderful people here from the West.

I am wondering, maybe specific to your state or industries that you see in your state, particularly maybe to manufacturing, what you see as a hurdle for small business in creating jobs. Is the regulatory environment something that you hear a lot about from small business owners?

The Office of Advocacy at SBA released a report that said small businesses with 20 employees or less pay approximately 36 percent more in regulatory costs, and we hear consistently that the regulatory environment is a major hurdle to job creation.

So I am wondering if you could shed some light on what we can do from the Committee perspective, and Mr. Dickson, I will start with you.

Mr. DICKSON. Eastern Pennsylvania used to be a manufacturing heyday. It was really big there, and I think that is why then Administrator Hector Barreto sent me to Philadelphia, because of my manufacturing background. The comments I have for you are not from the SBA, are from just my personal experience.

We go back to basics as to how do you grow a company, how do you expand your sales. Again, there are only three places—domestic, international and government. Okay? And the government, of course, goes to Federal, State, local, metro airport authorities—you name it—all over the place.

Manufacturing, for the most part, or much manufacturing, has gone offshore now. All right? In my background I have seen that, and it is very disturbing to me personally because I am an industrial engineer by trade.

We have a different cost basis in the United States. It is very difficult for manufacturers to compete on a level playing field when there is not a level playing field with international customers and international manufacturers.

You know, in industry in the United States, when we have a barrel of used oil, we recycle it; we take care of it. In other countries they take it out back, and they throw it away. All right?

Our plants are filled with safety devices for protecting our workers. You know, hard hats and glasses and steel-toed shoes and hand guards on CNC mills and lathes and things like that. That costs money, and those are really all good things.

Do not get me wrong. I think they are wonderful things, but our manufacturers are competing on a worldwide basis now, with people that do not have that kind of cost basis. All right? And it puts them in a huge disadvantage.

And I talk to people all the time, realizing that 19 out of every 20 customers are overseas when you look at the numbers. I talk to manufacturers all the time and try to get them to look into exporting their products, and they never think about it because they cannot compete with the prices overseas.

Just in the company that I came from, before I came to here, I mean we were offloading all sorts of things to the Pacific Rim, to South America, to Eastern Europe and things like that.

I mean when you look at the wrap rate, which is the labor rate and the material and overhead and everything else. When you look at the wrap rate overseas versus the wrap rate in the United States, it is not competitive.

Ms. DIETZ. What do we do to level the playing field for manufacturers? In 2008, if the manufacturing sector were a country, they would have been the 8th largest economy in the world. So what do we do? We need those jobs.

Mr. DICKSON. This sounds like protectionism, but it is really not. Okay? One thing that the Federal Government could do is put tariffs on those products coming from overseas countries that do not have the same type of environmental or worker safety laws. There has got to be a mathematical method of looking at the different industries and all of the countries that come to the United States to sell their products and if we could figure out how to mathematically equalize the playing field. Okay.

For instance, you get a country that is manufacturing textiles. All right. And if we could figure out how much more our textile manufacturers are paying just for the environmental and just for the safety side of it, and then put a tariff on those products, that would probably do two things. First of all, it would certainly equalize the playing field, but it would also force other countries to increase their awareness of safety and environmental. All right?

Ms. DIETZ. Yes.

Mr. DICKSON. To me, it would level this playing field that has become very unlevel.

And as a manufacturer, in a manufacturing background, you would not believe. It is 25, 30, 35 percent more expensive to manufacture in the United States. I could get things manufactured and shipped to the United States cheaper than I could manufacture them in the United States. That is a real disadvantage for a small business.

Ms. DIETZ. Thank you very much.

Mr. Lopez, I know you have a plane to catch, and if you would like to answer this and then leave, I certainly appreciate your time today.

Mr. LOPEZ. You bet. You know, going back, I want to go back to the last question about us going out and how much time we spend in the office and how much time we spend outside of the office.

I can share with you—and I am sure we are experiencing it across the country—there is more and more demand from the general public and organizations for SBA to come out into the general public to talk about our programs and services. There is a thirst amongst small businesses to learn what SBA can do to assist them.

And I can tell you in my office the staff does not appreciate when I go out and talk to the community because the phone starts ringing and I create more work because when people start realizing all the resources and all the depth and all the partners that we have at their disposal, at no cost, then they start realizing that what a great opportunity to learn more about the Federal contracting, business development, economic development, all those types of

things. So I can just say that as we go out there, there is more and more that people realize this agency has to offer to the strength of our country.

Now when it comes to the regulatory issues, clearly, there is a lot of need for regulatory guidance. However, I can tell you this; small businesses in my area are concerned as to the language. It is not written necessarily for the common businessman. You know, you need to have attorneys. You need to have staff interpretation as to what are these regulatory issues that they are supposed to follow. Even when they think they have it right, perhaps there is an attorney that has a different interpretation of what it is that the regulation should be doing and how it should be applied.

So I would encourage that while we have the need for regulatory language, it needs to be simplified so that small businesses can understand it, so that they can better plan for the future as to how they are going to expand and how they are going to continue to deliver the services, recognizing that there are additional guidelines.

And the other thing I would say is sometimes these regulatory policies are so well hidden that the small business owners does not even know about it until someone brings it to their attention, not in an informative manner but more in a punitive manner, that they are not following it.

Ms. DIETZ. Thank you very much.

Ms. Raghavan.

Ms. RAGHAVAN. Congratulations. You said my name correctly.

Ms. DIETZ. You know what? Brian gave me a phenomenal phonetic spelling. So I must give the credit to Brian.

Ms. RAGHAVAN. I mimic, actually, Greg's comment about the way the wording of the regulation is. It is very difficult. And we get it a lot in the offices: Can you just explain what this means to me?

And I think we have actually a great example in New York. You may have heard we have the New York Mets as one of our teams. They built a new stadium, but what people did not realize is by building a new stadium it has auto body shops. We have the largest bunch of auto body shops in the country, 300 of them that employ over 1,000 people, sitting behind the stadium.

So when Citi Field was built, they obviously asked to get rid of these people, and the City of New York gave some money. But one of the things that they did not talk about is how do you position 300 auto body workers into a different area, 300 auto body workers.

They have been working with us, the SBA, as well as we have been working with the city to not only get them to move to the Bronx, where we have a huge amount of manufacturing as its base, but it also has one of the highest rates of unemployment, at 19.2 percent, and move 1,000 employees over there.

And one of the things we did is worked with the United Auto Workers, which has a Hispanic Chamber of Commerce for auto workers, to actually get them being compliant to the State, as well as the city, regulation for having an auto body work shop, by getting the city to help them pay with their settlement fund to actually make sure all these auto body shops are in compliance.

And when they move over to work, one of the things we found out, the biggest thing, was the language barrier. Everyone speaks Spanish. So we had to go through that.

Also, we had 300 people trying to get funds for loans who have 300 different sets of tax returns, so trying to put them together.

They actually have been working with SCORE as well as the SBA to get them all together, to make it a cooperative. And they are going to buy a cooperative, buy a piece of land under our 504 program to actually move everything from Queens to the Bronx.

But right there is a regulation. They did not even know they were violating them because they were just written in English but not English that anyone could understand. And actually sitting down there and actually translating, taking them through that, and actually saying here are your rights and this is what we can do to help actually helps a lot. So some of that will actually ease that.

And I just wanted to comment on manufacturing and technology. You were asking what we can do. I think one of the programs that we do not exploit very well is actually the commercialization of technology into manufacturing.

We have our SBIR program. I think if you look at phase three of that where about 47 percent of those who go from phase two to phase three is supposed to be for commercialization of technology.

And I think if we were able to link that technology and that program with actually some of the manufacturing space we have in the United States, we would be surpassing because we are actually inventing new technology that has not been out there. So there are not other countries that can play in that, and we are one of the few countries that can do that. We have some of the greatest labs.

I have the pleasure of having Stonybrook SBDC as part of my Small Business Development Network. They have one of the only nano-infrared technology type of things, which I still do not understand what it does, but there are only two of them. And they have four Nobel laureates working there. And you can imagine some of the commercialization of some of those projects to be out. We could be putting them not only in New York, where we also have manufacturing issues, but in our neighboring States and Philadelphia as well as in North Carolina.

So I do think if we were able to use that program, which is already there, and actually link it to something else, we could be winning that battle as well.

Ms. DIETZ. Thank you. That is fantastic.

Lynn.

Ms. DOUTHETT. To piggyback on what Pravina just said is that under the SBIR program every year it is always a big question of whether or not it is going to be refunded, and that was a comment that really resonated in the Startup America program. North Carolina was the first place where they held that particular conference in understanding reducing barriers for these technology companies, these high growth companies. So we actually invited 130 companies to come, who are located throughout the Research Triangle area as well as the mountains and the coast, to participate in giving feedback on how it is that these barriers can be reduced.

In the small group forums that I attended, one of the patents and trademarks was a huge area in terms of being able to get that pushed through more quickly prior to other countries stealing that information. Right? That was one of the top things that came out, also FDA approvals.

I mean a lot of these companies are doing R&D here, but their greater market share is globally. It is really not here. So their manufacturing costs are being recouped; the R&D costs are being recouped overseas, but we are really not the market for that product, or creating the manufacturing of that product here.

So there is a lot of good output and commentary that are going to come out from this regulatory barrier dialogue that has happened all over the country. That will put our Federal agencies in a position to understand better where their processes are being clogged up, in order to free up these internal processes, as well as address regulation that is prohibiting us from creating jobs and allowing our businesses to move forward.

Ms. DIETZ. Thank you.

Mr. Goldberg.

Mr. GOLDBERG. I think you heard a number of DDs talk about staffing issues and the need for their employees to be out in the community, out with the small business, reaching out to the small businesses and the bankers, and I would like to add a little historical perspective here.

In the late 90s, when the agency started to downsize and then streamline and centralize, we were set up as a wholesaler of the product. The banks made the loans, the centers processed them, and we were there to tell the SBA story and to market, and basically to do it by getting people out from behind their desk and going out into the community.

I think that changed, at least in the Cleveland District, in April of 2008. That is when the recession first started to hit small business, and our phones were ringing off the hook. So we had to have people in the office, not just out in the field, answering the needs of small business—my bank just cut my line; my bank is demanding payment—and to deal with those situations.

It is very labor intensive when you are trying to deal one-on-one as opposed to a wholesale. We were talking to lots of people all at once. So we had to balance having the staff out there doing community outreach, talking to big groups and having roundtables, talking to bankers, with having enough people in the office to help these individual businesses that called in and wanted us to help them find a bank.

I told them, we cannot find a bank for you. We cannot recommend a bank, but we could point you in the right direction. Come on in. We will talk to you about what the actual issue is, and then we will talk to some banks and work together with you.

That is very labor-intensive, but it also saved a lot of businesses. With the Recovery Act and the Jobs Act to follow, that gave us the 90 percent guarantee and the tools to save those businesses.

But we have to balance the need to be out in the community with the need to have people in the office to help these businesses when they call, and starting in 2008 those calls just came in. I think I was getting five or six calls, seven, eight, nine calls a day. The

staffer were getting even double that. And we had to have people in the office.

The last, let's say, 10 months or so those calls have subsided a bit because the banks are lending some again with our programs. But we still have become instead of that wholesaler we are like a hybrid organization now out in the field, where we are doing retail work as well as wholesale work. And I think we need to balance the act and have the right staff number to provide the service when they do call and they do come in, as well as be out in the field.

Ms. DIETZ. Thank you very much.

Mr. Cadena and then Ms. Nelson.

Mr. CADENA. Yes, I wanted to talk about the regulatory. Thirteen years I was in New Mexico, and I am going to take a New Mexico approach to this.

We have the two national labs in New Mexico. In New Mexico, frankly, there is a lot of regulation. So the national labs really provide wonderful nanotechnology, solar technology.

All kinds of companies start in New Mexico. Not one Fortune 500 company is there because too much regulation, too much tax, too much everything. They go to Texas; it is a little less. Go to Nevada; there is nothing. You can do whatever you want. It is a wild West. Come on, let's play.

So the difference is as you have small businesses, as they are trying to do something, watching Texas, New Mexico and Nevada, just everybody around, every State has different regulations. So it is not just Federal regulations.

And as Mr. Lopez was talking about, when they bring something and bring it to me—I am educated; I can read—I have no clue what half of those regulations are. So we not only have the Federal problem, but depending on where you are at, you have different State regulations that just add additional burden.

So we are moving. You know, we are not doing anything from a national basis. We are just stirring the pot.

And when we are looking at trying to get increased jobs in America, we have to make that regulatory environment less because I can assure you—and I am talking as a New Mexican—that that is probably one of the hardest places to go work, yet we have two national labs that are awesome, one that hopefully has not burned down today during the fire.

There is a lot of stuff going on. But you know, that is where the Intels and the Microsofts started. They are not there because it is just too much regulation.

The SBIR also is a big issue; it is. Every year we would have folks coming in saying, well, we will go to step one, step two, what have you. But they are concerned about well, if we get started, are we going to be able to go through the whole mix. So that uncertainty really stops people from trying.

I mean because there is a lot of good technology. There is no question. In America, especially in the State of New Mexico with the two national labs, you are getting a lot of innovation and everything that starts.



But it is some of this uncertainty. You do not want to get in, start and then what happens when you get through step one. Are you going to be able to take it all the way through?

Then again, with your patents and your copyrights, that process, because it gets real difficult, those things need to be either streamlined because that really does hurt small businesses, the innovation part, because that is what keeps this country going. We are innovative.

I mean you know the hardest thing with working with the scientists, like from Stonybrook, they always—when they come in and they want: So how do you take it to market?

You know, they come in and tell you this is how. I understand how to use a cell phone, actually not completely because they change it all the time, but they want to tell you how it works.

We do not care. We want to know how do you take it to market.

And the same thing with the regulatory, the regulations that are out there, you read them, and they do not make any sense. And Greg is 100 percent right. I have read through some of those things and even had some of my attorneys try to explain some of this stuff to us, to me, and even the legal opinion of the regulation does not make any sense.

So if that does not make any sense, then you are having a small business that has a great idea, has an SBIR. So we are just adding layers upon layers while our good friends in China and everywhere else, they just figure it out and just do it. So that is something.

And I agree with you, Mr. Dickson, that we do need to have some kind of a number to make it fair. Otherwise, all we are doing is creating and innovating, and other people are building and making money.

Ms. DIETZ. And that is an excellent point. Thank you.

Thank you, Ms. Nelson, for being so patient.

Ms. NELSON. Sure. Our Administrator likes to say that now everybody wants to dance with us. And I love to dance, but you cannot do it 24–7.

[Laughter.]

We have kind of the opposite problem. We have less than 3 million people spread over 51,000 square miles. And they are in small, little communities, and some of them are very isolated from broadband. You know, piping sunshine in is a problem sometimes.

But they have some skills, and what we are seeing is some grass-roots leadership. Mayors who have left those communities when they got old enough to get out of town, to get their education and a career, retire early, come back, and they are taking leadership.

And they are joining together in small clusters of these very small communities—I am talking 500 people—and locating a business incubator, just a small place to kind of hold and nurture some. We have a photographer. We have someone who does some of the best craftwork you would ever see in carving wood, birds. It was one of the White House ornaments.

They are not even aware of the services. We are trying to hook them up with SCORE counselors, the SBTDC and our office, technically, with Skype which we are doing through SCORE. We cannot possibly go there every time and share every single thing, but

we can go and establish a relationship, and then we can pipe the sunshine in through the technology.

But within our program, we are not able to do this. We are having to find resources, and the Arkansas Rural Development looks like it is going to step up to the plate. We have worked with EDA to see if they possibly could.

But as to the regulatory issue—and by the way, I brought packets. If you want boring statistics about Arkansas, you are welcome to them.

Mr. VAN HOOK. That is great.

Ms. NELSON. So if you cannot sleep some night.

I am also a CPA, and for about 12 years I practiced part-time. I primarily did a lot of tax, and that is the most awful set of regulations. I do not understand most of it.

I have done tax returns that were 900 pages for a very small company because of their structure, and they were not making a whole lot of money. And you can only guess how much that cost them, and there is no value added, other than keeping them out of IRS prison.

We have at least four cities that have a problem with IRS because they have not paid payroll taxes. They cannot possibly go forward. We are working with the ombudsman because the ombudsman can also help small communities, small municipalities. They will not even talk to them to come up with a compromise plan.

Yes, we know we need to pay, but we cannot move forward and get more revenues and people and grow our communities with this cloud and lien on the town. IRS literally owns them.

Mr. LOPEZ. You know, I am going to have to excuse myself to catch my flight.

Ms. DIETZ. Please do.

Mr. LOPEZ. But before I leave I do want to leave you with some articles about success stories from different companies, from SBA. I am very proud to say that one of the Colorado firms was recognized in this.

But I do want to leave it with you because I think it is important for everybody to understand how well SBA approaches all the small businesses and to see it in writing and to see, hear firsthand from the small business owners because we could sit here all day and tell you all the success stories that we deal with every single day, but I think it is important for this Committee to understand the impact that we have. So I just want to leave these with you.

Ms. DIETZ. Absolutely. Thank you very much for bringing them.

Mr. UMBERGER. How would you like those provided?

Mr. VAN HOOK. We can follow up with you.

And then I just want to end on a good note. I know that is how the Chair likes us to end. I just want to point out that this roundtable was a little unique because usually when we have roundtable each participant is an expert on one issue. So I noticed when we would have a question each of your name tents would go up because you are all experts on a lot of these issues and you are all familiar with it.

Then also, I just wanted to thank Julie Verratti on our staff. She has been on detail for a couple of months. She helped us with SBIR, trying to get it passed a few months ago, and she has been

invaluable to our staff. And I think she also helped Diane with the pronunciations.

Ms. DIETZ. Thanks, Julie.

Mr. VAN HOOK. Yes. So, Julie, it is her last day tomorrow. So she is kind of going out on a high note.

So we just want to thank everybody on that.

I do not think I had anything else to include. I just want to thank everybody for flying up here, taking a train, driving.

And then, the record is going to be open for two weeks, to July 14th. So if you have any materials, any information, any Arkansas statistics that we can throw in there, on tourism, any Las Vegas convention information, we can throw that in there as well.

Mr. CADENA. I will send you whatever you want.

Mr. VAN HOOK. Okay. We appreciate it.

And this meeting is adjourned.

[Whereupon, at 4:44 p.m., the hearing was adjourned.]



## **APPENDIX MATERIAL SUBMITTED**

**Edward J. Cadena**

District Director, Nevada District Office



Edward Cadena is the U.S. Small Business Administration's Nevada District Director. He is responsible for the management and delivery of SBA financial and business development programs, targeting the small business community in all northern, southern and rural regions of Nevada – the 7th largest of the 50 states with an expanse of over 110,000 square miles.

Mr. Cadena joined SBA's New Mexico District Office in Albuquerque as its Deputy District Director in 1997 and served as its Acting District Director from 1999 to 2002. His responsibilities included managing the delivery of SBA's financial assistance, management counseling and business development programs for the State of New Mexico. In addition, he was Chief of Finance for New Mexico's SBA District Office.

Mr. Cadena held the post of Acting District Director of the Lubbock, Texas District Office prior to his appointment as District Director for Nevada, where he currently leads the Nevada SBA team.

Before joining the SBA, Mr. Cadena was employed for 18 years with the Federal Deposit Insurance Corporation and Resolution Trust Corporation (FDIC/RTC). During his tenure with the FDIC/RTC he worked in the Division of Supervision and the Division of Liquidation.

He held several positions with FDIC/RTC including Assistant Managing Liquidator-Credit for the Anchorage, Alaska Consolidated Office; Regional Manager-Administration; Associate Director-Administration and Operations; Assistant Regional Manager-Closed Bank Administration, and Department Head-Credit for the Western Service Center in Irvine, CA.

Edward Cadena is a graduate of New Mexico State University at Las Cruces, where he earned a degree in Finance. He and his wife, Dee Anne are the parents of two sons.

**Lynn Douthett**

District Director, North Carolina District Office



Lynn Douthett was appointed District Director of the U.S. Small Business Administration's North Carolina District Office in June 2010. She oversees a staff of 15 employees and the delivery of agency programs such as financial assistance, management counseling and business development throughout the state of North Carolina, including three alternate worksite areas (Asheville, Raleigh and Wilmington).

Lynn joined SBA in 1997. She managed the SBA's National Call Center in Charlotte, NC and moved to South Florida as the Assistant District Director for Marketing and Outreach. Shortly after returning to North Carolina in 2003, she was named Deputy District Director.

Prior to joining SBA, Lynn worked for 15 years in the banking industry as a regional manager with several banks completing her career with BB&T. As a small business owner she established and marketed her own company in Charlotte, NC. The business provided specialty-painting services for commercial and residential clients.

Lynn is a graduate of University of Pittsburgh with a bachelor's degree in Business Administration. She has pursued graduate studies in finance at Fairfield University in Connecticut and at Queens University in North Carolina.

**Greta Johansson**

District Director, New Hampshire District Office



Greta Johansson became the District Director of the New Hampshire District Office of the U.S. Small Business Administration in April of 2011. She leads the state's SBA team in delivering SBA's programs and services throughout New Hampshire, working with lenders, SBA resources partners, economic development entities and others to foster entrepreneurship and business growth.

Prior to joining the New Hampshire team Ms. Johansson served as the Deputy District Director of the Connecticut SBA office since 1996. In this capacity she helped guide the office through several Agency transitions including extensive changes in product delivery methods and significant reductions of staff and Agency resources. For much of this time she led the Connecticut District's lender relations and development efforts. During her tenure, the SBA office in Connecticut saw more than 15,500 small business loans issued for over \$2.8 billion through more than 220 SBA lenders. Her knowledge and understanding of the needs of both small business owners and the small business lending community resulted in her participation in several key SBA initiatives to modernize its lending procedures for the SBA's 7a and 504 programs as well as the recently announced Community Advantage loan products.

Previously, Ms. Johansson served for over 14 years with the SBA's Disaster Loan Program. She joined Disaster Area 1 in the summer of 1982, and subsequently worked for over 14 years in several of the disaster offices, the last five years as the Deputy Area Director for Area 1 in Niagara Falls, NY. During those years Ms. Johansson's experiences included rebuilding an office that had been largely decimated by a major relocation while responding to disasters covering a broad range of events from small, localized fires to wide-scale flooding and high-level destruction from earthquakes and hurricanes.

Ms. Johansson was raised in Mystic, Connecticut and holds a BS degree in Mathematical Sciences from Stanford University. She currently resides in Concord, New Hampshire.



**Linda R. Nelson**

District Director, Arkansas District Office



Linda R. Nelson was appointed Arkansas District Director of the U.S. Small Business Administration on June 22, 2004, by SBA Administrator Hector Baretto.

As Arkansas District Director, Nelson is responsible for directing SBA activities in Arkansas, including the Arkansas District Office in Little Rock, and field offices in Fayetteville and Jonesboro. She is also responsible for oversight of SBA-funded resources in Arkansas, including seven Small Business Development Centers, six SCORE chapters, and two Women's Business Development Centers. The Arkansas District Office is tasked with facilitating over 800 small business loans totaling \$120 million each year to help foster community and economic development and create new jobs in communities throughout Arkansas, and to insure that small business owners have access to free management assistance and low-cost training.

Nelson has been a dedicated member of the SBA team for 26 years, and has served SBA in many capacities. She served as Assistant Director for Economic Development and Acting District Director prior to her current appointment.

A graduate of the University of Arkansas at Little Rock and a Certified Public Accountant, Nelson is the recipient of numerous awards including the 1998 Supervisory Federal Employee of the Year and 2000 Outstanding CPA in Government. She is a member of the Arkansas Society of CPA's and the American Society of Women Accountants.

**Stephen D. Umberger**

District Director, Baltimore District Office

Stephen D. Umberger, a native of Exton, Pa. has accepted an appointment as the Director of the Baltimore District Office on May 16, 2006.

As District Director, Umberger is responsible for the delivery and management of the Agency's financial and business development programs throughout the state of Maryland, with the exception of Prince George's and Montgomery counties.

Umberger has a 23-year career with the U.S. Small Business Administration, and comes to Baltimore from the SBA Office of Field Operations in Washington, D.C. There he managed the Agency's national internal control and quality assurance programs. He also served as liaison between the SBA's headquarters offices of Government Contracting and Business Development, General Counsel and Inspector General, and the regional and district offices across the country.

Before joining SBA headquarters staff, he served many years in the SBA District Office in Cleveland, Ohio, where he held positions in loan underwriting, servicing and liquidation.

Umberger is a graduate of the Villanova University School of Commerce and Finance, where he earned a Bachelor of Science degree in Finance. He lives in Stevensville, Md., with his wife and two daughters.

**Pravina Raghavan**

District Director, New York District Office

Pravina has over 15 years of experience in providing advisory services to businesses in the start-up, growth, expansion and maturity phases of development. In that time, she completed over 100 Mergers and Acquisitions (M&A) transactions and has advised companies on strategy, marketing, sales development, capital raising, mergers and acquisitions, divestitures, outsourcing, joint ventures and partnerships, and international development. Pravina is the District Director for the Small Business Administration (SBA), New York District Office.

Prior to joining the SBA, Pravina was a Vice President with MTV and BET Networks in Content Distribution and Marketing where she was responsible for contract negotiations and marketing for 23 channels. Previously, she was a small business owner of a strategic advisory firm that assisted companies in their quest for growth.

Prior to owning her own business, Pravina was the Business Development Director for Misys PLC, one of the largest banking software companies in the world. She was also an associate at an investment bank, Broadview International, in London. Prior to Broadview, Pravina worked for seven years at AT&T in several finance and management roles, including her last five years as M&A Director for Europe.

Pravina has an MBA in Finance from Seton Hall University and a BS in Finance from The Pennsylvania State University. She has worked in over 15 countries around the world and is familiar with five languages.

Pravina is also a board member of the International Executive Resource Group (IERG) and a member of the Women's Bond Club of New York (WBC), The Penn State Alumni Association, Venture Association of New Jersey (VANJ), Women in Telecommunications and Cable (WICT), and National Association of Minorities in Communications (NAMIC).