

THE SBA BUDGET FOR FY 2016: DOES IT MEET THE NEEDS OF AMERICA'S SMALL BUSINESSES?

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS FIRST SESSION

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WEDNESDAY, FEBRUARY 25, 2015

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Hanna, Rice, Gibson, Brat, Hardy, Radewagen, Velázquez, Chu, Hahn, Clarke, Meng, Payne and Lawrence.

Chairman CHABOT. The Committee will come to order.

Good afternoon, everyone. We want to thank the Administrator of the SBA, Maria Contreras-Sweet for joining us here this afternoon. I believe this is her first appearance this Congress—the 114th Congress. She is always a welcome visitor to us. And I want to particularly acknowledge and thank her for coming to my district a couple of weeks ago, to Cincinnati, and we, together, had a number of events—in an area called Over-the-Rhine, a number of small businesses, as well as credit union, and met with the Chamber and did a town meeting and a whole range of things. And she was obviously extremely knowledgeable and I think made a wonderful impression on the people of Cincinnati, and we thank you for coming. I really do.

Today, the Committee will hear from the Administrator about the President's Fiscal Year 2016 budget request. Two questions arise. First, are the resources sufficient to help small business grow the middle class jobs that America needs? And second, are the resources allocated in an open and transparent manner?

It is important to note that there are numerous other policies that are as critical for small businesses as those that will be raised today. Among those are the following: small businesses deserve tax reform because the current code is so complex, it makes their lives miserable. They need a regulatory regime that protects health and the environment without imposing outrageous costs. They need financial markets that are not so burdened by government oversight that access to capital to small businesses oftentimes is all but impossible. They need a simple system for exports and imports, one that does not require navigation of a maze-like bureaucracy.

Now, turning to the SBA budget request, I believe that it is more than sufficient to meet the needs of America's entrepreneurs.

Where I disagree with that request is in the priorities revealed in the request.

For example, the SBA budget makes no mention of hiring additional key personnel who will help small businesses enter the federal contracting marketplace, a key pillar of the Small Business Act. The budget fails to allocate additional funds or explain how the Agency will update its Loan Management Accounting System that still utilizes 1960s computer technology. The budget request disturbingly fails to mention the absence of a chief information officer to oversee implementation of computer technology. The budget request makes no mention of resources needed to implement changes made to SBA's government contracting programs that have yet to be implemented.

Instead, the SBA budget request is replete with its own initiatives and priorities. These include more funds for, among other things: entrepreneurial outreach programs that duplicate services in many instances provided by existing partners; a new computer system not requested by Congress, the Loan Information Network for Access to Credit that is intended to help small businesses find SBA lending partners; and Executive Direction.

This request for more than \$5 million in Executive Direction is particularly troubling. After more than 60 years of existence, Executive Direction from the SBA suddenly determines that a more than century-old statute, the Anti-Deficiency Act, applies to the closing of loans without any explanation. Executive Direction from the Agency entails waiting 30 years to update the application process for small business investment companies and then failing to publish that update in the Federal Register. Executive Direction forces changes in cost accounting procedures for Small Business Development Center grantees but provides no mechanism for challenging that action. If these are the types of decisions that will result from increased Executive Direction, it represents very questionable use of resources in my opinion.

The SBA must reconsider its priorities to minimize risk to taxpayers from a \$100 billion loan portfolio while maximizing opportunities that ensure small businesses will prosper and create needed middle-class jobs. That should include a top-down reexamination of the Agency's procedures for creating policy.

Ultimately, budgeting is about the bottom line for small businesses. For the SBA, the budget is about accountability. The budget request is the Agency's defense of its priorities to taxpayers, current small business owners, entrepreneurs, and Congress. If this is the Agency's defense, then it has not gotten that accountability right.

And I would now yield to the ranking member, Ms. Velázquez, for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Our economy continues exhibiting signs of strength, and small businesses are vital to this resurgence. Last year, companies with fewer than 500 workers expanded their payrolls by more than two million positions. That is roughly two-thirds of the three million total new hires. Clearly, as with previous economic recoveries, our nation's small business sector will be instrumental to our overall progress. Given the central role small firms and entrepreneurs play

in creating new jobs and furthering growth, it is critical we work to ensure small businesses have the tools they need to succeed. The Small Business Administration plays a vital role in this regard.

Access to capital is the perennial challenge for all small businesses. When private capital markets are insufficient for small companies seeking affordable loans, the SBA's initiatives help fill in the gaps. Last fiscal year, the agency supported nearly \$19 billion in lending through its 7A program alone. Another \$4 billion in lending was made available for capital-intensive projects through the agency's 504 initiative. In many instances, these were businesses that might struggle to secure financing elsewhere. It is vital that the SBA's capital programs function smoothly and continue serving as a backstop to private capital markets.

For small firms to succeed, they need more than capital. Technical know-how and guidance on everything from how to develop a business plan to export products to new markets can make a difference between whether a business thrives or goes under. To help meet those needs, the SBA has a range of entrepreneurial development initiatives. The agency's network of Small Business Development Centers and Women's Business Development Centers are spread throughout the country, providing valuable counseling services to startups and growing companies in every region.

Beyond capital and technical assistance, the SBA also plays a vital role in helping small businesses and disadvantaged firms secure their fair share of federal contracts. Federal procurement efforts are responsible for \$500 billion in economic activity. When small firms are awarded these type of projects, the benefits are twofold. Taxpayers receive quality goods and services at fair prices, while small companies are able to grow, and in many cases add employees to their payroll. In that sense, the SBA's contracting programs are another element critical to our overall economic health. Given the myriad of ways the small business administration can be critical to the health of the small business sector, it is paramount that the agency's scarce resources be invested wisely.

I look forward to hearing the administrator's views regarding the agency's priorities moving forward.

With that, I thank the chairman again for holding this important hearing, and I want to thank the administrator for being here today. I yield the balance of my time.

Chairman CHABOT. Thank you very much.

We will now introduce our sole witness here this afternoon, the administrator, who took her position in April 2014 becoming the 24th administrator of the U.S. Small Business Administration, and a member of President Obama's cabinet on April 7, 2014. Prior to her arrival in Washington, Contreras-Sweet founded the first Latino-formed commercial bank in California in more than 35 years that focused on serving small- and medium-sized businesses.

We welcome you here again this afternoon, Madam Administrator, and we generally have a five-minute rule but we open it up to you to take such time as you might consume within reason since there is just one witness. Thank you very much for being here.

**STATEMENT OF MARIA CONTRERAS-SWEET, ADMINISTRATOR,
UNITED STATES SMALL BUSINESS ADMINISTRATION**

Ms. CONTRERAS-SWEET. Thank you. Thank you again for that generous introduction, Chairman Chabot. And, of course, to Ranking Member Velázquez and the distinguished members of the Committee. Thank you for this opportunity to testify about SBA's FY 2016 budget.

Chairman, congratulations. It is nice to see you come back to your Committee. Your leadership and your record on bipartisanship and your commitment to the small businesses is a great tribute to our country. Thank you for that.

I know there are many new faces on the committee, and I have already had some productive conversations with some of you, and I look forward to visiting with all of you and your districts in the months ahead.

Entrepreneurs, I agree, Ms. Velázquez, are the backbone of our economy. They exude confidence. They exude courage and character. The programs in this budget have one thing in common: they seek to maximize opportunities for small business owners to create jobs and contribute their talents to our economy.

That is the Agency's mission, and that is why I am here. To accomplish this goal, we must continue our work to modernize the SBA, so that we are accessible and relevant to the business community in the 21st century.

To that end, I want to share with you an important achievement in this document before you. Our Fiscal Year 2016 budget proposal contains a zero subsidy request for our core capital programs. Those would be the 7(a), the 504 and the Small Business Investment Company (SBIC) programs. We are proud of this achievement and the fiscal responsibility that it represents.

I am an entrepreneur and a former community banker. I take my fiduciary responsibility seriously, and this budget represents my commitment to be a good steward of taxpayer dollars. For Fiscal Year 2016, the SBA requests \$860 million. In time of tight budgets, the SBA is doing more with less. SBA's zero subsidy achievement means that this proposed budget comes in three percent below our current budget.

The SBA is making good loans, and we project we will cover any loan losses through fees in Fiscal Year 2016. We have achieved this despite waving fees on small-dollar loans. This fee relief helped us increase lending to minority-owned businesses by 23 percent last year, so we propose continuing it in Fiscal Year 2016.

I have completed 10 months on the job now. And thanks to the bipartisan support we have enjoyed from this Committee, we have made some important progress together. Together, we met our 23 percent small business goal contracting goal for the first time in eight years. We supported nearly \$29 billion in lending last year, which created or sustained nearly 600,000 jobs. In the same period, our resource partners counseled 1.2 million entrepreneurs. Our SBIC funds increased their investments by 60 percent and provided \$5.5 billion in patient capital to promising small firms. We expanded our Boots to Business program to train more than 15,000 service members at 165 military installations worldwide.

In his State of the Union address, the President spoke about our economic recovery and job growth. I will tell you something you already know: It is our small businesses that are leading this economic comeback.

This budget requests an increase in our 7(a) lending authorization to meet the growing demand for SBA capital. Last year, Congress raised our 7(a) authorization level as we approached our lending cap, resulting in an all-time lending record of \$19.2 billion in approvals. This year, we are asking for our highest authorization level yet of \$21 billion.

This budget also seeks full funding for our resource partners. The loan counseling provided by our Small Business Development Centers, our SCORE partners, the Women's Business Centers and the Veterans Business Outreach Centers helps entrepreneurs across America start, grow, or reinvigorate their businesses.

Partnering with them is one of the smartest investments we can make.

This budget seeks a modest \$950,000 increase for veterans outreach programs. We propose to offer SBA's Boots to Business entrepreneurial training program to the National Guard, the Reserve component members, and additional military installations. We are asking to offer our Boots to Business Reboot program to veterans who have already transitioned out.

And we are proposing to continue the fee reductions on loans to veterans, so we can serve these heroes as well as they have served us.

We are also asking to expand SBA's microloan program level by 40 percent to increase the ability of microlenders to capitalize startups and provide technical assistance. We are

Convinced this expansion would fill a real need for more small-dollar loans in the current commercial market. It will help underserved and rural businesses turn a profit and create more jobs.

This budget also seeks to improve our customer service. As a former community banker, I understand that the best way to make SBA more effective is to make our products and processes easier, quicker, and more cost-effective. This budget structure accomplishes this critical goal by migrating more of our services online, where more and more banking is taking place today.

This April, we will roll out our highly anticipated SBA One system. This is the automation of the entire 7(a) loan application. It is going to significantly cut the cost and time of our application process. We recently demonstrated this new service to our bankers, and the feedback has been overwhelmingly positive.

Last year, I rolled out my modernization plan to fashion a 21st century SBA that stands for smart, bold and accessible. Smart means implementing systems that harness technology to deliver capital more effectively. Bold means opening new markets for small business owners both at home and abroad. And accessible means making our services available to all, including women, veterans, rural entrepreneurs, seniors, and the disadvantaged.

As the ranking member indicated, more than two million of the three million jobs generated last year were created by small businesses. This budget would help us build on this momentum. It

would give us the resources we need to perform our core mission and help more small businesses innovate, launch, hire, and grow.

Again, many thanks to the members of this Committee and to our very committed staff at the SBA across the country.

Thank you, Mr. Chairman.

Chairman CHABOT. Thank you very much for your testimony, Madam Administrator, and I will recognize myself for five minutes.

My first question, as you know, I had introduced legislation last Congress to help small businesses, the investment companies, SBICs. What is the SBA doing to make that application process more open, transparent, and less complex?

Ms. CONTRERAS-SWEET. First of all, let me compliment you on sponsoring, or I should say sort of being the patron of the Family of Funds program. We are really looking forward to having that tool, so I want to thank you right at the front end for that leadership. We think it is an important tool for job creation. The fact that we have a cap. I know if you have success fund or another it prohibits you from going on to the next, so I just wanted to thank you for that foremost.

But, you know, on the SBICs, we have been at zero subsidy now for about 11 years, and I have to tell you that that program has seasoned executives that really vet these applications, and as a result, I think we are having that kind of success. If you are hearing that the process is arduous, I would be more interested in learning more about that because it is, you know, the government obviously guaranteeing investments that are higher risk, and so we just wanted to make sure that we are doing our complete due diligence and maintaining the kind of confidence that you have in us.

Chairman CHABOT. Thank you.

I will have my staff follow up with your staff on the particulars because I only have five minutes. So I do not want to take up all the time on that.

Ms. CONTRERAS-SWEET. Sure. Thank you.

Chairman CHABOT. The SBA uses private sector partners to provide capital, as you know, to small businesses. These programs have specific missions. What procedures does the SBA have to ensure that small business investment companies, 7(a) lenders, certified development companies, and microloan intermediaries are complying with their statutory mission?

Ms. CONTRERAS-SWEET. We do a couple of things. Well, several things, but one of the things that I am installing recently that I think you will be pleased to know is in banking, as you generously mentioned, when I was back in Los Angeles, I founded a community business bank. And one of the things that we always enjoyed was having a sense of predictability. No one wants too much government regulation, but at least when you know what it is and you understand why it exists in terms of banking, for example, it is really important to be able to anticipate what is going to happen. So I felt that in terms of our regulation, for example, as you mentioned, in CDCs, our regulation, or rather our oversight I should say was not as clear to people when we went in to examine it. There was a standard process through which we regulated or examined these partners. And so we are installing a new program that we call PARRiS. And it will do just that, sir. It will make sure

that we have a standard, anticipated, confident program that people can plan to, manage to, so that when we get there, we all talk in the same language.

Chairman CHABOT. Thank you.

I had a meeting, along with a couple other members of this Committee with—and one who is on Ways and Means and was not a member of this Committee, but with a number of small businesses from around the country. There were eight, exactly, and some groups, and we discussed a number of issues. We met for about an hour. And one of the issues, not surprisingly, these were small businesses that are actually engaged in trade, international trade for the most part. I think seven of the eight were. And as you know, trade is critical to our economy. Ninety-six percent of the consumers around this globe are located outside the boundaries of the United States, and unfortunately, one to two percent of small businesses are engaged in international trade, and that is despite the Internet and access that was unheard of years ago.

But one of the principal topics that they wanted to talk about—there were a number. They talked about Ex-Im Bank and other things, but we talked about the importance of, first of all, TPA (Trade Promotion Authority), which used to be called Fast Track years ago which no president has had in a while. But we have got to do that first. And then TPP is hopefully something that would not be too far down the road from there, the Trans-Pacific Partnership. And then T-TIP with Europe.

So my question for you, Madam Administrator, would be I know and understand from others that the President has really stepped up his game in working on both sides of the aisle. He really only needs to work one side of the aisle; we are working the other side of the aisle. But it is going to take—this will truly have to be bipartisan to get this done. So could you comment on what the Administration is thinking relative to moving TPA, TPP, T-TIP?

Ms. CONTRERAS-SWEET. I admire your interest, and I am grateful for your interest in the globalized economy because I think whether we want to be a part of it or not, it is upon us. When you light up your website, you are already there.

And so first, if I may go to the specific and then go to the general, let me just say that specifically at the SBA, when I mentioned in my opening address about the smart, bold, and the accessible, the bold really meant about—was speaking to the market making. I do think that we have to help small businesses engage and protect them. Not protectionist but rather guide them through the international marketplace. And so to that extent, you know that we have USIACs that we deploy. We have products that help. We have really strong products that have a 90 percent guarantee. Lamentably, it is just not a well-known product and so that is one place where we can work together.

But then to your general point about the administration, clearly, the president has made this a top priority of his. He understands that if we do not set some rules of engagement, China will set them for us. And so in that regard, I know the president has asked all of us at Cabinet to make this a top priority. And so I have been traveling across the country to try to engage the conversation, have people give us feedback about what that could look like. I have

been meeting directly with Mike Froman, my cabinet colleague about an SME chapter and what that should include. We are taking valid input across the country from people, and it is informing our process. But to the extent that we get TPA and TPP, we think that that will set a great foundational framework for T-TIP.

Chairman CHABOT. Thank you very much. My time has expired. But to the extent that I can, please let me urge you to do everything within your power to emphasize to the Administration the importance of passing these trade pieces of legislation are to small businesses across the country, and you and I in our different capacities I think should do everything we can to do that. So thank you very much. I appreciate it.

And I now recognize the gentlelady from New York, the ranking member of the Committee, Ms. Velázquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. And welcome, Administrator Contreras-Sweet.

You know, one of the biggest challenges that we face in our country is the income inequality, the widening gap. For few, the economy is doing extremely well, but for a big majority they are not. And so one of the programs that we have within the Small Business Administration is the PRIME program that serves to help very low income entrepreneurs. However, the program is slated for termination by your agency. And instead, the SBA chooses to target the most wealthy business owners through programs like Emerging Leaders, which require almost half a million dollars in annual revenues to gain entry. So I would like to ask you, of the new pilot programs, the new initiatives that you are proposing this year, which one of them is designed specifically for very low income entrepreneurs, like PRIME?

Ms. CONTRERAS-SWEET. Yes. Let me just say that, first of all, you know how simpatico I am to your disposition about the underserved. It is something that I feel that I have been trying at least to emulate your work and to do it in my own little way in Los Angeles in my bank that was stood up just to serve the underserved. So you know that that is where I come from. When you are an immigrant, as I am, and you navigate, you know, any assistance along the way is something that is very well received.

Ms. VELAZQUEZ. But it is not only immigrants.

Ms. CONTRERAS-SWEET. No, I know.

Ms. VELAZQUEZ. Very low income could be rural America.

Ms. CONTRERAS-SWEET. Yes. So I just wanted to say I hope that you noticed that we did amp up the technical assistance component under the microloan assistance program to accommodate that. It is why in large measure we zeroed out fees on the loans under \$150,000.

Ms. VELAZQUEZ. I understand. My question to you is on the new programs and initiatives, if there are any being designed, tailored, to help very low income entrepreneurs. You have Emerging Leaders and other programs, and you are going to tell me that maybe, you know, the Microloan program could fill that gap, but I can tell you that the SBDCs offer training as well as Emerging Leaders does. So if we are going to say that it is duplicative, well, the Emerging Leaders Program might not require the type of technical assistance that low income entrepreneurs need.

Ms. CONTRERAS-SWEET. Right. The way I—and again, only from my experience as a banker and then as a business person trying to start two businesses, I felt that there were three things that we needed to do to help this target community that you are identifying. And one is to provide them counseling. We launched a program also—and you know, again, I am reluctant to call it a program because I think it is a segmentation, but it is called My Brother's Keeper, and it speaks to focus on clearly the underserved. And so we are working with community colleges. We are working with churches. And we are going across the country. In fact, it is a program that we are launching very imminently. And again, I am reluctant to use the word "program," but this initiative, this effort very soon to target that very population.

And then the second thing is that I have just been working with the credit unions of late to make sure that they make those \$50,000 loans and under more available, and so we have entered into a partnership with them.

And then third, the technology to make the system more efficient.

Ms. VELÁZQUEZ. So we have two new programs, Emerging Leaders and ScaleUp America. Both of them provide training for very successful businesses. I have a concern, I have a problem with that picture because here we are creating new pilot programs to assist businesses that really do not need it. If you are a small business that has revenue of \$500,000 and have been in existence for three years, you are already up and running. How can we fill the gap of those small businesses that are struggling? It goes to the core mission of what the Small Business Administration should be doing.

I just want to share with you that I will be fighting to make sure that the PRIME program gets funded.

Ms. CONTRERAS-SWEET. Just, if this is any consolation, I hope that you also noticed that we amped up by a million dollars for the Women Business Centers, which are wholly dedicated to underserved communities as well in addition to My Brother's Keeper.

Ms. VELAZQUEZ. I would like to talk to you about the SBICs.

Chairman CHABOT. The gentlelady's time has expired. Would you like an additional minute or so?

Ms. VELAZQUEZ. Yes, please.

Chairman CHABOT. Okay. The gentlelady is recognized for an additional minute.

Ms. VELAZQUEZ. Let me call your attention to the fact that the agency is claiming you achieved the 23 percent contracting goal, and I am very happy about that. But then I cannot reconcile that with the inspector general report that says that one billion dollars of small business contracting actions were awarded to big firms, ineligible firms. How do you reconcile that? My point is, you must have better mechanisms and oversight to make sure that those contracting actions go to those who they were intended for in the first place, small businesses. And one billion dollars going to big firms and then being counted as small firms is just not right.

Chairman CHABOT. The ranking member's time is expired but you can answer the question.

Ms. CONTRERAS-SWEET. Well, just let me say, I could not agree with her more than when we have a program that is focused on small business, that is what we want to do, and so just to say that the SBA has committed several programs put in place to make sure that this is not taking place. We have disbarred more people, three times more at the rate since we took office than in the prior 10 years. So I want you to know we are on it. We are adding more personnel. We are conducting more anomaly reports, and just every tool available to us is being deployed.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman CHABOT. The gentlelady's time is expired.

The gentleman from Nevada, Mr. Hardy, who is the chairman of the Subcommittee on Investigations, Oversight, and Regulations is recognized for five minutes.

Mr. HARDY. Thank you, Mr. Chairman.

You know, I am a small business owner myself, or was, and I was out in the district this last week, and my district is District 4, which hosts Nellis Air Force Base. We probably have the largest veteran population in my district of any place in Nevada. With that being said, the SBA claims that the Veterans Business Opportunity Centers are underfunded; however, SBA makes no requests for increase of funding for that program, but instead requests an increase of around \$5 million for Executive Direction. If these centers are underfunded, then why not request Executive Direction allocation for those funds to the Veterans Business Opportunity?

Ms. CONTRERAS-SWEET. Sir, I have to go back and check on the number, because we are asking full funding for all of our partners to continue the programs that we are doing, and we are asking for an amplification, an expansion on the reboot program. And so we are asking for more funding for the veterans' programs, so I have to review what number you are referring to because we want to relaunch the Reboot program which is for those who already transitioned out. So my understanding is that our request is an increase. So I will have to look to see.

Mr. HARDY. According to the report, I looked at it, there were some questions about whether that was what was actually happening. So we can get with each other after.

Ms. CONTRERAS-SWEET. I would be delighted, sir. Thank you. Of course.

Mr. HARDY. The other thing is the inspector general question. Why does the SBA require the Office of Inspector General to clear all the proposed final rules, and can you speak of how the role of the inspector general works with SBA?

Ms. CONTRERAS-SWEET. We have, you know, I try to visit with the inspector general on a monthly basis and to have a proactive—I always think it is better to prevent than to detect. It is sort of my Japanese training. When I was in corporate, you know, the private sector, it is not about detection, it is about prevention. So to the extent that I can meet with the inspector general in advance of promulgating something to get the feedback, then I think it helps us to be more efficient to not have to get caught up in messy quagmires at the end of the process.

Mr. HARDY. Okay. If you could, could you explain to me how the SBA works with veterans on getting access and moving forward to

access those funds? And the question I also have is it expresses that the program is at about \$350,000. Is that sufficient for small businesses? Because it seemed like a pretty low number to me.

Ms. CONTRERAS-SWEET. Thank you for allowing me the opportunity to clarify that point. What we are saying is that up to \$350,000, we have zeroed out fees, but they can take loans up to \$5 million. It is just the fee structure. So we are waiving fees for veterans on loans up to \$350,000. That is the point on that; not that we are limiting to that size of loan. So that is the clarification on that SCORE.

I am sorry, and your other question was?

Mr. HARDY. It was about the process about how a veteran actually utilizes their benefit to be able to get part of the SBA.

Ms. CONTRERAS-SWEET. So the program is really quite dynamic and interesting. It is part of the federal TAP program, the Transitioning Assistance Program. So we go into the installations globally around the world and we introduce them first to a couple hour video. And if they are interested in entrepreneurship, then we put them into an eight-hour—excuse me, into a two-day program where we actually have in-person training about entrepreneurship. And then if they are interested in that, then they go into the complete program that is a very extensive program where they actually develop a business plan so that when they come out they are ready to start their business. So there is no languishing when they are out in the community and trying to navigate through a labyrinth of what are they going to do with their lives after they have served us. So that is the counseling portion. And then they can go to a Veterans Business Outreach Center where they can get counseling for contracting opportunities where we have set-asides for veterans. And then as I said, our fee structure for veterans is very favorable. So the entire longitudinal track for veterans I think is a strong one, and we are seeing enormous success from that. And the success rate of veterans who are starting businesses is outstanding. It is their discipline, their rigor, and so we are experiencing strong success there.

Mr. HARDY. One last question. Through this process, is there specific things that the SBA looks at and how somebody is qualified for a certain business or get involved in it? Do they have to have any real world experience in that industry that they are trying to get into, a small business? How do you qualify individuals? Is there an education factor or criteria that you have to meet?

Ms. CONTRERAS-SWEET. You know, we do not think it is our place to say to somebody that they are qualified for a business or not. And I will give you an example.

Since you have been asking me about veterans, I was in Denver, and I met Sheilagh. And Sheilagh was a Fine Arts major as a captain—I believe she was a captain—lieutenant, excuse me. And anyway, the point, she was a Fine Arts major, but she was in this intelligence unit where they trained our Blackhawk helicopter pilots. And she always wanted to fix the training, but yet her family brought her home, her daughter needed her at home. Long story short, she ended up hiring some engineers and came to the SBA, and so we provided her counseling to build her plan out and then we guided her so that she could get certified and actually apply for

an SBIR grant that she was able to take to commercialization. And now she has a multi-million dollar business, and she is creating jobs and building a very important supply chain. So it is not to us to decide what they want to do or that their major matches. If we feel that they have the passion and the wherewithal, they build a business plan and we help them navigate through it. And if they are successful, more power to them.

Chairman CHABOT. The gentleman's time is expired.

There are votes on the floor. We will go through one more five-minute round of questions here; then we will go over and vote. Now, there are three votes and there is a motion to recommit, so it probably pushes us up to around 4:00, I think, before we are able to come back for votes.

Ms. CONTRERAS-SWEET. Okay.

Chairman CHABOT. So I think we do have other members on both sides that want to ask questions. So if you are able to come back, I know that you had a 4 o'clock time, but if you are able to modify that, and just let our staff know what the status is, I would appreciate it.

Ms. CONTRERAS-SWEET. All right. Thank you.

Chairman CHABOT. The gentlelady from California, Ms. Chu, is recognized for five minutes.

Ms. CHU. Okay. Administrator Contreras-Sweet, I am struck by how much initiative the SBA has taken to address the critical problems that small businesses are facing in this nation, and I would like you to tell us about how three of these initiatives work. I know these are pilot programs that have been approved by Congress via the Appropriations bill.

The first one I would like you tell us more about is the Boots to Business program, and I know that veterans returning home after serving our country face so many struggles of just finding employment and have unavoidable difficulties of resuming life as a civilian. I once had a veteran working in my office who told me that when he deactivated from the military, all he received was a list of benefits that were recited to him, and yet he really needed employment alternatives. And yet, the Boots to Business program is designed to help veterans before they get deactivated so they will not feel so lost.

And then there is a whole other area, and that is the young entrepreneurs and the high-tech innovators who are not the typical types to join the Chamber of Commerce, and oftentimes the last place they would look for assistance is the federal government. How has the SBA worked to change that mindset and tap into the young, entrepreneurial energy we see exuding from places like the Silicon Valley through the Growth Accelerator Fund?

And finally, I know that there are places around this country with high unemployment and economic stagnation that could become the next Silicon Valley if here were the right partnerships that took place between universities, government, and business. How does the Clusters initiative address this kind of issue?

Ms. CONTRERAS-SWEET. Thank you, Congresswoman.

Let me just say that the Boots to Business program is, as I was outlining to Mr. Hardy, is a program that has been exceedingly well received. In fact, recently, I was at a cabinet meeting with sev-

eral of my counterparts who were so interested. They wanted to know how to get this program. But essentially, the Defense Department came to us and said that while they are preparing—the men and women in uniform are preparing to transition out into civilian life, that many of them wonder about what their future is going to be and do not have a sense of direction. And so one of those options can be entrepreneurship. As I was outlining, we introduced them, a very cursory, quick introduction, and then if it peaks their interest, then we take them through a series of other processes to eventually help them complete a business plan that we think is viable, realistic, that we can help guide them through. And then when they get out into civilian life working through the VBOCs or SBDCs or the other programs, they can get the counseling that they need to continue to start and grow their business, access capital, and then eventually contracts.

With respect to the young entrepreneurs, there are so many ways in which we think that we need to engage the young entrepreneurs, so we have a millennials program. And again, these are segmentations. I call them just different channels; they are not programs but merely segmentation in our strategy. It is still counseling, and it is still the same kind of effort, just different lines of effort in a new target, but those programs have been well received by our millennials and we are directing them now to these growth accelerators.

We thought that we would try to understand what was taking place in this new phenomenon. Some people call them incubators, and we put out an invitation to compete for prizes of \$50,000, and we had \$2.5 million that you awarded to us for that purpose that was appropriated. And essentially, we had 823 applications. And so it was really nice to have several positive outcomes as a result of this competition. First, we were able to introduce the growth accelerators to each other so that they could meet and learn best practices. Second, we brought them in so they could learn more about federal resources available to them. And then number three, we now have an ongoing communication, another outreach where we can continue to promote the SBA services in their communities. And last, to your last question, the Cluster. You and I are both from California, and we know and we appreciate and respect the Silicon Valley model and what it has done for the world in many ways. Not just the job creation, but the innovation and the many full contributions to health, to sciences, to so much of society. And so we see that there are some underserved communities that can use a little oomph, if you will. That is a technical term. And essentially, what we try to do is pilot a program that would test how these work. And I have to tell you that it is always nice when you see that P3s can happen, I believe in public-private partnerships. And so when a large financial institution came forward, seeing the results of these programs and is now duplicating our efforts, it holds promise, and eventually it could be that we either sunset this program and allow the marketplace to take hold, but we are really heartened by its success to date.

Chairman CHABOT. Thank you very much. The gentlelady's time is expired.

The Committee is going to head over to vote now. Mr. Rice, you will be next if you should choose to come back.

Mr. RICE. I will.

Chairman CHABOT. Excellent. So we will be back hopefully in a half hour approximately, or perhaps shorter than that. But if there is no further business, we are in recess for as long as it takes to get done with the votes.

Ms. CONTRERAS-SWEET. Thank you.

[Recess]

Chairman CHABOT. The Committee will come back to order. And we will now yield to the gentlelady from New York, Ms. Clarke, for five minutes. And we want to once again thank the Administrator for being so understanding and so gracious and not just running out. So we appreciate very much you sticking around. Thank you.

Ms. CLARKE. And thank you, Mr. Chairman, and thank our ranking member, and echo our Chairman's sentiments to our administrator. Thank you for indulging us today and for sharing your testimony with us today.

Advances in technology continue to impact the needs of small businesses and entrepreneurs. Small businesses face the need to adapt to new technological environments quicker than ever before. I am pleased to hear that one of your focal points is the modernization of the SBA, and I support your efforts to implement your new online programs.

My question, Madam Administrator, is would you discuss in more detail the new technological tools that the SBA plans to implement, particularly how these tools may reach out to economically and socially disadvantaged citizens that may benefit from the many opportunities afforded by the SBA?

Ms. CONTRERAS-SWEET. Thank you again for that question. Let me just say that technology allows us to do quite a bit, and one of those is the goal that you just framed. When we think about access, just my experience bank-wise, if I said to a relationship manager, "You have a goal of \$10 million," they would try to go out and get two \$5 million loans to make their bogey. And so when you have—and so the challenge is about finding—you know, I would say, "No, I want you to put out, you know, 10 \$500,000 loans or even smaller." And so then it was about how much foot traffic could we get into the bank? How do we identify them? It is just as much work to underwrite a small loan as it is to do a larger loan. So what technology allows us to do is, number one, through LINC, it allows us to create that kind of foot traffic.

Just during our break today, we just met with the Women's Business Center who outlined to us that in just one week she was able to get incredible foot traffic through the LINC program that is a dating match program where people who are looking for loans get real-time responses from banks, and they are allowed to make a match. And then they get a date, if you will, and so it allows you to connect with the banker much more quickly. So it is foot traffic, if you will, in very real time. So that allows more people to get in and to be heard by banks.

Number two, it allows then the relationship manager to get a whole bunch of more people; that he does not have to go out and scout. So it is more efficient for community banks.

The next level is this what we call a liquid FICO score, and that is a second initiative that we put in place. And that allows us to expedite the way in which we underwrite and the global cash flows and the debt service coverage considerations that we do in our underwriting systems. This allows us to do that for the community bank that heretofore did not want to do SBA loans because they were so cumbersome. So thank you for asking the question because we think that this is going to be an important advancement to allow banks to do more of our SBA loans. And clearly, there is strong evidence that when we compare our SBA loans to the general market conventional loans, there are so many more minorities that benefit from SBA loans.

And the third, and the one that we think is going to be the most transformative, is SBA One. And that is going to come online in a couple of months, and that is going to completely transform the way we interact with our lending partners. And so, again, we think that our loans will become more attractive to banks and make them more available to our targeted disadvantaged communities, particularly our small business communities, and therefore, we think positive outcomes will ensue. Thank you.

Ms. CLARKE. That sounds like a real game changer, Madam Administrator. I am looking forward to seeing the results of the online rollout, and just how people really adhere to the usage of it because, you know, you were probably dealing with some areas that are more fluent in the use of online services versus others that are sort of getting up to speed on it. So I am looking forward to that.

Just sort of very quickly, the SCORE association has been a great resource for small businesses, particularly in my district in Brooklyn. Can you express to us what plans, if any, you have to expand and grow the collaboration between SBA and SCORE chapters? How would you sort of rate the relationship as it stands today?

Ms. CONTRERAS-SWEET. SCORE is one of the most impressive organizations in America. When you think that these are seasoned executives who have already had success and they come back and volunteer their services to help replicate their stories, I think that is an admirable story.

I was recently visiting with them at their 50th anniversary, and it was really quite impressive to see the generosity of these men and women who come before. To your earlier question, I know that they are also working to address more diversity in their outreach, and that is something that we are working to support. And so that is another important thing. But just generally speaking, we are asking for full funding for SCORE because we think they are important partners, and to the extent that they can continue to recruit volunteers, I think their programs will clearly grow and the counseling will grow and we will be able to create more jobs. So we are very heartened by the work of SCORE, and we consider them top partners, if you will. They are priority partners with us, and I have enjoyed visiting with them. And many of them are co-located in the SBA offices. So we have a very intimate relationship.

Ms. CLARKE. Thank you, Mr. Chairman, for your indulgence. I yield back. Thank you, Madam Administrator.

Chairman CHABOT. The gentlelady's time is expired.

If the administrator can stay a few more minutes, I have got a few more questions, and Nydia has a couple questions.

Ms. VELAZQUEZ. I do not have any more questions.

Chairman CHABOT. Oh, you do not? Okay.

Well, I will ask just a couple quick ones.

Ms. CONTRERAS-SWEET. Sure, sir.

Chairman CHABOT. You have been at the SBA for not quite a year, I guess April of last year. What is the most significant challenge in managing the agency that you have found since you have been there?

Ms. CONTRERAS-SWEET. You and I sort of discussed this briefly, and that is that unfortunately, our products are seen as cumbersome. And so I think that people see the SBA as their grandfather's SBA, and that is what we are really working hard. The arc of our work, sir, is to make certain that we are responding to the technological advances and the way people take in information. And so I think that overall that will be the arc of our work, is the way we take the SBA and bring it into the 21st century.

When you think about the technology that we need to use and need to become familiar with to make sure that we are helping small businesses navigate through the technology that they can deploy and will be encountering in their work. So that is one part of the modernization effort.

The other is that our population used to compete. Our target market—one florist competed against another florist across the street, and now they find themselves as you identified, in a global marketplace. So the marketplace is different. We need to make sure that we are modernizing the way we think about market making. And I heard you address markets, and I think that is a salient point that we need to address as well and I think are doing nicely with those initiatives that I discussed that we are putting in place.

And the third is that the population is dramatically changing, so we need to address whether we have cultural competency as the ranking member mentioned. We need to make sure that we are responding to how many—I was going to use the word “seniors,” but let us just call them “encore entrepreneurs.” I tell my husband that the 60-year-olds are now the new 40s. Our population is changing, and so we need to make sure that we have products that respond to the dynamic changing demographics for our seniors, for our vets as we mentioned, the millennials who now want to start more businesses than ever. And so all in all, I would say the arc of the work is the modernization agenda.

Chairman CHABOT. Thank you. You mentioned kind of the perception among folks of the challenge that it is to go through and get loans, for example, through the SBA. We had eight, those businesses I mentioned this morning, that were principally in international trade. That is why we met. And I asked them how many of you have ever gotten loans through the SBA or attempted to, and three of the eight had attempted, but ultimately, either did not go through with the process or were rejected. I think the limits were not conducive to what they were trying to do and they just

thought the paperwork was kind of daunting and they just sort of dropped out. So those were folks that we had not prompted. I was not sure what they would say, but just so you know, you do not necessarily have to respond, but that is what they told me.

One other, my final thing that I would want you to respond to if you could, the Judiciary Committee passed the Regulatory Flexibility Act that we have passed in previous congresses a couple of weeks ago, and it is a small business bill to some degree, so I was the principal sponsor, but it did not actually go through this Committee because we wanted to go ahead and get it to the floor. We had already been through this Committee in past congresses. Anyway, in general, the Regulatory Flexibility Improvements Act—because it was improvements. But the Improvements Act does a couple of things. But the principal thing that it does is require that when federal agencies are considering new rules or regulations, they have to get input from small businesses and determine what the impact will be, both direct and indirect. That is one of the differences between the existing and the old bill, or the old legislation, is that it would include indirect impacts on small businesses. And so it passed, passed the House. It was bipartisan. I forget exactly how many democratic votes we got on the floor. It was, I think, 29 or 30 or something like that, virtually all the republicans. And the President shortly after that—it has not gone through the Senate yet—but issued, and we have seen a fair number of these coming out recently, a veto threat which I was—I cannot say surprised, but did not particularly—was not happy about it. Do you have anything about that at this point that you might want to shed any light, or if you would like to come back at a later—get back to me in the future after you have had more of an opportunity to find out the Administration's position, I would be happy to wait till then, but I will leave it open to you at this point.

Ms. CONTRERAS-SWEET. Thank you. But if I may just go back a step to your earlier comment. I wanted to assure you, I wanted to leave you with this assurance because I noted that you referenced in your opening comments about the LMAS system, our Loan Management Accounting System. And I just wanted to give you the wonderful news. I stated it in September when I was here, but maybe I just need to punctuate it or state it with the fine out, our LMAS system project, the mainframe, we have migrated off the mainframe. We are on longer working—we have done that work and it is a completed project. And it is the basis for which we were able to launch the LINC and the SBA One. So I wanted to give you that assurance that that project is now behind us and we are moving forward in a system that is now compatible with other systems. And so we are no longer in a proprietary system that was asked about in September and to which you eluded in your opening remarks.

But as it relates to regulatory, I have not read the specifics of the legislation, and so I am happy to go back and review the specifics. But generally speaking, I believe in smart regulation. I do not believe in overregulation. I believe in smart regulation. As a banker, I did not appreciate the regulation that I had to navigate through to start my bank and certainly to operate the bank. But I understood that some were appropriate for consumer protection.

And so it is trying to find that right balance. I have not heard that the president indicated that he would veto. I have heard that some of his staff said that they might advise him to veto it, but I have not heard that he has actually made a final decision on that. So I would be delighted to get back to you once I learn more about what the administration's position is.

Chairman CHABOT. I appreciate that very much.

And I will now yield to the gentleman from New Jersey, Mr. Payne, for five minutes.

Mr. PAYNE. Thank you, Mr. Chair. I am looking forward to serving with you on this Committee and us working together to improve the circumstances for our constituents as it relates to small business. And to the ranking member, who has been a consummate proponent for small businesses across the country.

And Ms. Contreras-Sweet, welcome.

Ms. CONTRERAS-SWEET. Thank you.

Mr. PAYNE. First, let me say that I have been very impressed with the work that you have done in the short time that you were here under the circumstances you found yourself and have been able to move SBA in the right direction. We know there is definitely a lot more work to do, but your hands-on leadership bodes well for small businesses and entrepreneurs across this country.

And I was delighted to have you in my district for an SBA small business seminar along with Senator Booker, I believe had it, and I was able to join. And also, the attention that your office has shown to me and my constituents, and I appreciate that.

Let me say that, you know, as you know, Hurricane Sandy heavily impacted New Jersey, and the Government Accountability Office found that the SBA took well above the goal of 21 days to process disaster relief applications. I see in the budget there is a request for another \$159 million for major disasters and \$28 million for other disasters. Can you tell the Committee what additional improvements SBA intends to make to ensure better response in the future? And we know that was not under your initial purview, but moving forward, how do you see that?

Ms. CONTRERAS-SWEET. I have to share with you that since I am from Los Angeles, I experienced the Northridge earthquake and was on the Rebuild Los Angeles Board after we had the South Central Los Angeles riots. And so I have been through situations where we really needed SBA and FEMA and others to come in to give us support, so this was something that was very important to me. And as soon as I took office, this was the first office that I sat down to review. So we started just from my experiences things that I felt needed to be done and the initiative of the good men and women who are trying to evolve at the department, we have done several things.

First, what we found in the response rates and the timeframe that it took to respond to the requests, the loan requests, it was because there was one queue. So what we did is we have now double-tracked the queue to have one for businesses and one for mortgage recovery. So we now have experts in each queue and they are able to process them a little faster.

Another was that we took them manually. We went in and we gave them the paperwork and they completed it manually. We have

now gone from 36 percent that came online to now 82 percent that are coming online, so that is allowing us to be more efficient.

Our third initiative is that when people needed help, the limit, the cap limit of the unsecured limit was set at \$14,000, and we have now raised it to \$25,000. And another one is that when we see that there is some strong credit and so we really do not have to take a lot of time underwriting and understanding what their financials are, we put them now in an even more rapid line. So these are the kinds of initiatives that we have put in place very recently. I know we can do more.

I recently met with FEMA to understand what their role is and how we can complement each other a little more effectively, and so just know that the work is ongoing.

Mr. PAYNE. Okay. We appreciate that.

One of the SBA's objectives is to provide timely and instructive and useful information through digital and in-person outreach efforts. With the rollout of the SBA One and LINC programs, how do you plan to handle the pushback from our constituents who have more trust in in-person lending, and how will you gauge the success of this program?

I can tell you that this is not obviate or supplant the process and that there should still be some engagement in the process. For example, the date with the lender, you can come in and visit with the lender, and in most cases you still have to go in and interact with the lender. But this is not a mandatory program. This is an opt-in. You choose to be on this program. So, you know, for example, my mother is never going to go online. She still wants to gauge and be personally addressed. And so this does not affect that system whatsoever. It is just an added program. It is another layer of programming. So I do not see that that would—I do not think that would supplant the personal engagement that needs to take place. At the end of the day, particularly community banks, what we do, at least I did in my bank is I would always consider character as well. And so it is important to get to know the person and to develop the relationship and have a sense of their trustworthiness, credit worthiness.

Mr. PAYNE. Thank you.

Chairman CHABOT. The gentleman's time is expired.

Madam Administrator, we want to thank you very much for your testimony here this afternoon. We are sorry that because of votes you ended up having to stay beyond the time that you had originally allotted, and we appreciate you doing that.

And I would ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. And if there is no further business to come before the Committee, we are adjourned. Thank you.

Ms. CONTRERAS-SWEET. Thank you very much. Thank you.

[Whereupon, at 4:25 p.m., the Committee was adjourned.]

APPENDIX



U.S. Small Business Administration

Washington, D.C. 20416

TESTIMONY of

MARIA CONTRERAS-SWEET

Administrator, U.S. Small Business Administration

House Small Business Committee

The SBA Budget for FY 2016:

Does it meet the needs of America's Small Businesses?

Wednesday, February 25, 2015

Chairman Chabot, Ranking Member Velazquez, and distinguished members of the Committee, thank you for this opportunity to testify about SBA's FY 2016 budget. Chairman Chabot, welcome back to the leadership of this committee. Your track record and bipartisan commitment is an asset to this country's small businesses.

I see a number of new faces on the committee. I've already had productive conversations with many of you. I look forward to working with all of you and visiting your districts in the months ahead.

Entrepreneurs are the backbone of our economy. They exude courage and character. The programs in this budget request have one thing in common: They seek to maximize opportunities for small business owners to create jobs and contribute their talents to our economy.

That's the agency's mission, and that's why I'm here. To accomplish this goal, we must continue our work to modernize the SBA, so we're accessible and relevant to the business community in the 21st century.

To that end, I want to share an important achievement in this document. Our FY16 budget proposal contains a zero subsidy request for our core capital programs—7(a), 504 and the Small Business Investment Company (SBIC) program. We are proud of this achievement and the fiscal responsibility it represents.

I'm an entrepreneur and a former community banker. I take my fiduciary responsibility very seriously, and this budget represents my commitment to be a good steward of taxpayer dollars. For FY16, the SBA requests \$860 million. In this time of tight budgets, the SBA is doing more with less. SBA's zero subsidy achievement means this proposed budget comes in three percent below our current budget.

The SBA is making good loans, and we project we will cover any loan losses through fees in FY16. We've achieved this despite waiving fees on small-dollar loans. This fee relief helped us increase lending to minority-owned businesses by 23 percent last year, so we propose continuing it in FY16.

I've been on the job now for nearly a year. Thanks to the bipartisan support we've enjoyed from this committee, we've made some important progress together.

Together, we met our 23 percent small business goal contracting goal for the first time in eight years. We supported nearly \$29 billion in lending last year, which created or sustained nearly 600,000 jobs. In the same period, our resource partners counseled 1.2 million entrepreneurs. Our SBIC funds increased their investments by 60 percent and provided \$5.5 billion in patient capital to promising small firms. And we expanded our Boots to Business program to train more than 15,000 service members at 165 military installations worldwide.

In his State of the Union address, the President spoke about our economic recovery and job growth. I'll tell you something you already know: It's our small businesses that are leading this economy back.

This budget requests an increase in our 7(a) lending authorization to meet the growing demand for SBA capital. Last year, Congress raised our 7(a) authorization level as we approached our lending cap, resulting in an all-time record of \$19.2 billion in approvals. This year, we're asking for our highest authorization level yet of \$21 billion.

This budget also seeks full funding for our resource partners. The loan counseling provided by our Small Business Development Centers, SCORE partners, Women's Business Centers and Veterans Business Outreach Centers helps entrepreneurs across America start, grow or reinvigorate their businesses. Partnering with them is one of the smartest investments we can make.

This budget seeks a modest \$950,000 increase for veterans outreach programs. We propose expanding SBA's Boots to Business entrepreneurial training program to the National Guard, Reserve component members, and additional military installations. We're asking to broaden our Boots to Business Reboot program that serves veterans who've already transitioned out. And we're proposing to continue the fee reductions on loans to veterans, so we can serve these heroes as well as they've served us.

We're also asking to expand SBA's microloan program level by 40 percent to increase the ability of microlenders to capitalize startups and provide technical assistance. We are convinced this expansion would fill a real need for more small-dollar loans in the current commercial market. It will help underserved and rural businesses turn a profit and create more jobs.

This budget also seeks to improve our customer service. As a former community banker, I understand that the best way to make SBA more effective is to make our products and processes easier, quicker, and more cost-effective. This budget seeks funding to accomplish this critical goal by migrating more of our services online, where most banking takes place today.

This April, we'll roll out our highly anticipated SBA One system. This is the automation of the entire 7a loan application. It's going to significantly cut the time and cost of our application process. We recently demonstrated this new service to bankers, and the feedback has been overwhelmingly positive.

Last year, I laid out my modernization plan to fashion a 21st century SBA that stands for Smart, Bold and Accessible. Smart means implementing systems that harness technology to deliver capital more effectively. Bold means opening new markets for small business owners both at home and abroad. Accessible means making our services available to all, including women, veterans, rural entrepreneurs, seniors and the disadvantaged.

I'd like to close by expressing my thanks members of this committee and to our committed SBA staff across this country. More than 2 million of the 3 million jobs generated last year, we're created by small businesses. This budget would help us build on this momentum. It would give us the resources we need to perform our core mission and help more small businesses across the country innovate, launch, hire, and grow.



3138 10th Street North
Arlington, VA 22201-2149
P: 703.842.2234
F: 703.522.0594
chunt@nafcu.org

National Association of Federal Credit Unions | www.nafcu.org

Carrie R. Hunt
Senior Vice President of Government Affairs
and General Counsel

February 24, 2015

The Honorable Steve Chabot
Chairman
House Small Business Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
House Small Business Committee
U.S. House of Representatives
Washington, D.C. 20515

Re: SBA Lending and Credit Unions

Dear Chairman Chabot and Ranking Member Velázquez:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing our nation's federally chartered credit unions, I write today as the committee prepares for the testimony of Small Business Administration (SBA) administrator Maria Contreras-Sweet. NAFCU member credit unions and the 100 million credit union members across the country appreciate the committee holding this important hearing on SBA lending.

As you know, credit unions have a longstanding working relationship with SBA and utilize SBA lending programs to facilitate the flow of capital to small business. Tomorrow morning at Washington Gas Light Federal Credit Union in Springfield, Virginia, NAFCU and the SBA will be highlighting efforts to further educate credit unions about SBA programs with an emphasis on the Administration's 7(a) micro-lending initiative. SBA programs are particularly valuable to credit unions given that each dollar of an SBA-guaranteed business loan from a credit union is excluded from the credit union's member business lending cap. This affords credit unions much-needed flexibility to serve their small business members.

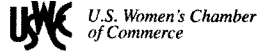
With respect to the 7(a) program we will also continue to work with Congress and SBA to review the policy that certifies the guarantee of a loan. Currently, a lender is not provided certification of the guarantee until after the loan has been completed. NAFCU continues to hear from our members that this inaction has discouraged entry to the SBA market.

Again, thank you for holding this important hearing. NAFCU appreciates the oversight role Congress plays and looks forward to working with members of the committee and the SBA to increase access to capital for small business, provide clarity for lenders and borrowers, and achieve greater participation by credit unions in SBA programs. If my staff or I can be of assistance to you please feel free to contact myself, or NAFCU's Director of Legislative Affairs, Jillian Pevo, at 703-842-2836.

Sincerely,

Carrie R. Hunt

cc: Members of the House Small Business Committee



March 3, 2015

The Honorable Steve Chabot
Chairman
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
B-343C Rayburn House Office Building
Washington, DC 20515

Dear Chairman Chabot and Ranking Member Velázquez:

The U.S. Women's Chamber of Commerce commends the House Small Business Committee for holding the Small Business Administration accountable for their budget and seeking to maximize the return on investment America's taxpayers receive. The Committee's views accurately identified numerous areas of spending on duplicative programs and non-mandated initiatives which result in bad outcomes and unnecessary waste.

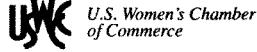
Each year, with strong bipartisan support, the House Small Business Committee implores the SBA and Whitehouse to end duplication and waste at the SBA as our elected representatives try to bring much needed oversight to the agency. Additionally, the Inspector General's office and the Government Accountability Office continue to detail significant problems within the SBA that derive from a lack of focus, lack of discipline and lack of applying resources in an effective manner. These failings continue to impact small businesses, communities and families all across America.

GOVERNMENT CONTRACTING

The Women-Owned Small Business Procurement Program has long been a thorn in SBA's side. From the passing of the law in 2000, the SBA has worked long and hard to prevent its implementation. Under the current Administration it still took 3.5 years to implement and the program is still wrought with flaws as highlighted in the GAO report released last fall and experienced by the US Women's Chamber of Commerce and its members. The SBA needs to fix the Women-Owned Small Business Procurement Program in short order, end the attribution of contracts, set-asides and goaling to ineligible firms and not allow the implementation of the new legislation to drag out over years.

The SBA is at a record low twenty-five Procurement Center Representatives. This greatly reduces the number of actions that are placed in small business set-asides. There needs to be at least one-hundred fifty PCRs to ensure small businesses are able to compete in the federal market.

Subcontracting remains a significant issue. Our members report there is very little oversight to hold prime contractors accountable for using the businesses presented in their sub-contracting plans after the award of a contract. Small businesses spend thousands of dollars responding to these RFPs and have no way to recover their losses.



ACCESS TO CAPITAL

Women-owned firms receive only 13% of SBA-backed loans. Banks continue to cherry-pick, taking on the largest loans with the least amount of risk while the SBA does not act to hold these banks accountable. Instead, the SBA is helping to push small businesses into expensive credit-card debt.

DUPLICATION AND WASTE IN EDUCATION/ENTREPRENEURIAL DEVELOPMENT

The U.S. Women's Chamber of Commerce continues to observe that the educational/entrepreneurial development arm of the SBA is fragmented, duplicative, and wasteful and lacks impact. We strongly support bringing many of the weaker programs into the Small Business Development Centers which is most certainly the strongest, deepest, best connected institution within the system. Instead of pushing women out of the mainstream into lower funded, less trained and less impactful programs, the SBA should push women to the absolute best SBA entrepreneurial educational/development partner it has – the Small Business Development Centers. We also strongly recommend that the SBA recommend Procurement Technical Assistance Centers (whose staff are trained by the Defense Acquisition University) for federal contracting training and mentoring as well as the SBDCs that have strength in this area. Women deserve the best we have to offer.

RESTRUCTURING – REMOVING TOP-HEAVY STRUCTURE

We applaud the views of the House Small Business Committee which highlight how much of taxpayer funds are spent on staff that do not directly support small businesses. Repositioning financial resources into the field would have a tremendous impact on our communities.

END PROGRAMS NOT SANCTIONED BY CONGRESS

We support the Committee's views and frustration around the endless number of programs the SBA spends taxpayer funds on that have not been established through the Congressional process and consequently, are not subject to adequate oversight. The SBA continues to ignore that our governmental processes are built on a system of laws which are created by our elected officials. Without this oversight, it is impossible to expect strong outcomes – as evidenced by all the waste and problems we see at the SBA.

The U.S. Women's Chamber of Commerce finds numerous issues with the SBA Budget and concurs that spending on duplicative and non-mandated programs and initiatives is a waste of taxpayer dollars. The monies spent to support the Small Business Administration are for the purpose of investing in our small businesses so that they can become vital players in our economy by increasing jobs and the taxpayer base.

Thank you for your consideration.

A handwritten signature in black ink, appearing to read 'Margot Dorfman'.

Margot Dorfman, CEO
U.S. Women's Chamber of Commerce