

SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Supported nearly \$86 billion in small business loans through 2005;
- Provided tax relief of more than \$80 billion annually to 25 million small businesses since 2003. The average tax savings in 2005 was \$3,235 per small business;
- Signed free trade agreements and provided trade promotion services that help small business exporters sell their products to the world; and
- Reduced Small Business Administration staffing by 24 percent while improving customer service and making record numbers of Government-backed loans.

The President's Budget:

- Provides \$28 billion in Government-backed small business loans for 2007, the highest level ever for the Small Business Administration. This will help create and retain an estimated one million jobs;
- Proposes modest fee increases on very large loans to cover the administrative costs associated with providing Federal Government guarantees on these loans; and
- Reforms Disaster Loan program interest rates to ensure that borrowers receive generous benefits after a disaster event while reducing taxpayer costs.

FOCUSING ON THE NATION'S PRIORITIES

Small businesses provide more than half of existing private sector jobs, two-thirds of new private sector jobs, and more than half of the United States' Gross Domestic Product. The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business financing and technical assistance programs. SBA also works with other Federal agencies to reduce regulatory and paperwork burdens on small businesses.

Reduced Taxes Help Small Businesses

[W]hen the tax cut hit the paychecks, our revenue went up. In fact, it saved us last year...[W]e were not having a good year last year, and we were looking at some retrenchment and stopping our growth. When the tax cut hit, we immediately began the move up, and had a strong fall, got back to even, which was good.

Scott George
Mid-America Dental and Hearing Center, Kansas City

In addition to SBA's programs, the Administration is championing small business interests through tax cuts and health care reform. The President's jobs and growth agenda is creating the right economic conditions to encourage innovation and growth by small businesses. The Administration has taken important steps to assist small businesses and the people they employ by reducing taxes, encouraging investment, and removing obstacles to growth.

As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, 25 million small businesses and their owners received tax relief averaging more than \$3,235 each in 2005. The lower marginal income tax rates have assisted more than 90 percent of small businesses that pay taxes at the individual income tax rates.

Recently enacted free trade agreements help small and medium-sized businesses (those with fewer than 500 employees) sell their products to the world, as these entities represent 97 percent of all exporters.

Continuing regulatory relief efforts ensure that Federal regulations do not unduly handicap America's entrepreneurs. Regulatory and paperwork requirements can be especially burdensome on small businesses. An SBA study found that small businesses with fewer than 20 employees spend an average of \$7,647 per employee complying with regulations as compared to \$5,282 per employee for firms with 500 or more employees. SBA works with Federal agencies to minimize the burden of new regulations. As a result of the Administration's efforts since 2001, SBA estimates that small businesses have been spared over \$41 billion in regulatory costs by filtering out unnecessary, over-burdensome, or duplicative requirements prior to finalizing new regulations. In 2007, SBA efforts are expected to save \$6.16 billion in forgone regulatory costs. SBA also launched www.business.gov as the official Federal business portal to reduce the amount of redundant data and forms submitted to the Government. This reduces the burden on small businesses.

The Administration also supports legislation enabling creation of Association Health Plans, which will allow small businesses to band together and purchase insurance at lower rates, and making insurance premiums associated with Health Savings Accounts tax deductible. In addition, the proposed comprehensive reform of the Nation's medical liability laws will make insurance costs more affordable and reasonable for small businesses.

Helping Small Businesses' Capital to Grow

SBA Helps South Central Los Angeles Business Expand

Abel Diaz is a true local success story. After graduating from Inglewood High School in 1970, he went to work as an apprentice at Inglewood's Kream Krop Bakery. During 10 years of learning the bakery business, he moved up the ladder and was named the firm's general manager in 1980. Diaz spent the next six years managing the company before he struck out on his own and opened Lupita's Bakery in South Central Los Angeles in 1986. Diaz's 16 years of experience in the bakery business served him well. His well-managed business grew by leaps and bounds, allowing him to open a second bakery in South Central Los Angeles in 1990 and a third location in Huntington Park in 1996. Ever alert for new business opportunities, by 1998 Diaz became conscious of the fact there was a definite need for a banquet and restaurant facility in the community served by his bakeries that could also accommodate weddings and large group functions. He turned to SBA for assistance. Thanks to SBA-backed financing through Banco Popular, Diaz opened his Fiesta Mexicana Family Restaurant with available space for a banquet hall. It is strategically located next to Lupita's Bakery and is continually booked, busily providing a valuable and popular community gathering place. "Abel Diaz is a perfect example of how SBA financing can facilitate growth for an Emerging Market community," Los Angeles SBA District Director Alberto G. Alvarado said. "He has succeeded in both the bakery and catering businesses thereby creating new jobs in a historically underserved area. I congratulate him on his success."

To meet the demand of the growing small business sector, the Budget supports \$28 billion in small business lending. SBA's 7(a) program, which received an Adequate rating under the Program Assessment Rating Tool, is being increased to support \$17.5 billion in guaranteed loan volume in 2007, the largest level in the history of the program. This will provide financing to entrepreneurs who could not obtain affordable loans without a Federal Government guarantee. SBA's Section 504 loan program will support an additional \$7.5 billion in guaranteed loans for fixed-rate financing of fixed assets such as land, equipment, and buildings. SBA will also supplement the capital of Small Business Investment Companies with \$3 billion in guaranteed long-term loans for venture capital investments in small businesses.

Providing Technical Assistance

SBA and its partners provide technical assistance programs, including training, counseling, mentoring, and information services to more than four million existing and potential entrepreneurs annually. SBA provides grants to a network of over 950 Small Business Development Centers; 389 SCORE chapters, which match executives with entrepreneurs for business counseling; and over 80 Women's Business Centers. The Budget requests \$104 million for technical assistance programs in 2007.

RESTRAINING SPENDING AND MANAGING FOR RESULTS

The 2005 Budget included a proposal to eliminate the subsidy cost of the 7(a) guaranteed loan program, which was successfully implemented. The program assisted more small businesses in 2005 than the previous year and this trend is continuing in 2006. In addition to saving taxpayers \$100 million per year, this budgeting change has brought stability to the program. Lending in the 7(a) program grew from \$9 billion in 2003 to \$14.3 billion in 2005. Whereas 2003 and 2004 shortfalls in appropriations required SBA to suspend program lending in several instances, the current zero subsidy has enabled lending to grow and not be interrupted by funding lapses. The 2007 Budget builds upon this success by proposing authority for \$17.5 billion of 7(a) lending, with borrowers covering the costs of administering Federal guarantees on business loans greater than \$1 million. This will make these loans self-financing and further reduce the need for taxpayer support.

Since 2001, the demand for SBA loans has grown significantly. At the same time, the Administration has maintained budgetary discipline in delivering small business services. During the period there was a 24-percent decrease in agency staffing but a rapid increase in agency services. For example, lending under the flagship 7(a) program increased from 43,000 to 89,000 loans per year, yet the cost of providing these services has dropped dramatically. In 2001, SBA programs cost \$1 billion in appropriations. The 2007 Budget will provide expanded services while only costing taxpayers \$624 million, a 38-percent cost decrease.

The Budget supports \$3 billion in new guaranteed venture capital investments for small businesses through the Small Business Investment Company Debenture program. However, with realized and projected losses exceeding \$2 billion in the Participating Securities program, which provided equity-type venture capital financing, the 2007 Budget does not support new guaranteed investments in this program. Rather than make new investments through this program, SBA will continue to improve efforts to monitor and mitigate risk in the outstanding \$6 billion Participating Securities portfolio.



As a result of the unprecedented damage caused in the Gulf area from Hurricanes Katrina and Rita, SBA received a record number of disaster loan applications.

The 2007 Budget proposes to continue providing preferential loan terms to victims of disasters. However, to contain the escalating costs of the loans, the Budget proposes to adopt graduated interest rates for the Disaster Loan program beginning with disaster events occurring in 2007. During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although interest rate caps would be eliminated. Thereafter, rates would graduate to those of a comparable-maturity Treasury instrument. This structure would continue to provide borrowers with deep interest subsidies when they need them most—immediately after a disaster—and after five years the subsidies

would be reduced for the remainder of the loan period. This proposal would not affect loans made for recovery from disasters occurring before 2007.

Consistent with the President's Management Agenda, SBA is administering its programs more efficiently to improve customer service and reduce program costs. Building upon its success in consolidating loan liquidation functions from 69 district offices to a single location, SBA is also working

to consolidate loan guarantee processing and other management functions. While providing administrative cost savings, these changes ensure that loans are managed more consistently and efficiently. The consolidation of loan liquidation activities in 2004 reduced agency costs for this function from \$32 million in 2003 to \$7 million in 2005.

SBA seeks to target assistance more effectively to credit-worthy borrowers who would not get loans from the commercial markets in the absence of a Government guarantee. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA’s outreach for the 7(a) program has been successful. Average loan size has decreased from \$232,000 in 2001 to \$160,000 in 2005, while the number of small businesses served has more than doubled during the same time.











SBA has also begun monitoring and managing its portfolio risk through the Loan Monitoring System. The implementation of this system enables the Agency to track the performance of lenders relative to the credit scores of borrowers in their guaranteed loan portfolio. This provides SBA with a tool to identify lenders that pose the greatest risk to Federal taxpayers and to suggest intervention when necessary to avoid further risk.

The 2007 Budget repropose termination of the Microloan program, which has been excessively expensive relative to other programs. The 7(a) program is capable of serving similar clientele through the Community Express program at a much lower cost to taxpayers.

The Budget requests additional administrative funding for SBA’s critical investments in information technology. New investments include web-based data reporting and processing systems, which will expedite and facilitate the use of agency programs and allow growth in program usage while maintaining streamlined staffing levels.





Update on the President’s Management Agenda

The table below provides an update on SBA’s implementation of the President’s Management Agenda as of December 31, 2005.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					

To improve service to the public, SBA assessed its staff’s skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2005. As the leader of the Business Gateway, SBA launched the website *www.Business.gov*, which helps small business owners easily find, understand, and comply with Federal regulations. SBA is working with other Federal agencies to reduce the paperwork burden on businesses. In the area of Budget Performance and Integration, SBA has also made progress in developing new estimation models to improve financial management and more accurately measure the cost of providing credit to small businesses. In 2005, SBA received an unqualified opinion on its financial statements, although one repeat material condition remained.

RESTRAINING SPENDING AND MANAGING FOR RESULTS—Continued

Initiative	Status	Progress
Faith-Based and Community Initiative		
Eliminating Improper Payments		
<p>The Agency established a faith-based center that works with community and faith-based groups to ensure access to SBA technical assistance grants. SBA continues to assess its loan programs for improper payments, particularly its 7(a) program.</p> <p>SBA will participate in the new credit initiative because it has a portfolio of \$3.6 billion in outstanding direct loans, \$63 billion in outstanding loan guarantees, and \$681 million in delinquent debt. This initiative will be included in the scorecard beginning in the second quarter of 2006. SBA is developing new strategies to improve performance and outcomes in these areas. The Agency has also implemented a best-practices lender monitoring system that tracks performance through the use of credit scores.</p>		

Small Business Administration
(In millions of dollars)

	2005	Estimate	
	Actual	2006	2007
Spending			
Discretionary Budget Authority:			
Salaries and Expenses.....	318	306	291
Business Loans Administration	126	121	121
Disaster Loans.....	111	—	195
Office of the Inspector General	13	14	14
Surety Bond Guarantees Revolving Fund.....	3	3	3
Unrequested projects.....	39	90	—
Total, Discretionary budget authority	610	534	624
<i>Memorandum: Budget authority from enacted supplementals</i>	<i>929</i>	<i>446</i>	<i>—</i>
Total, Discretionary outlays	850	1,744	630
Total, Mandatory outlays	1,652	–556	–25
Total, Outlays.....	2,502	1,188	605
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	995	3,532	693
Direct Business Loans.....	19	18	5
Total, Direct loan disbursements	1,014	3,550	698
Guaranteed Loan Commitments:			
Guaranteed Business Loans.....	18,551	24,490	22,940
Total, Guaranteed loan commitments.....	18,551	24,490	22,940