

Small Business and Commercial Real Estate Lending
 U.S. House of Representatives Small Business and Financial Services Committees
 Oral Testimony as Prepared for Karen G. Mills, Administrator
 U.S. Small Business Administration
 February 26, 2010

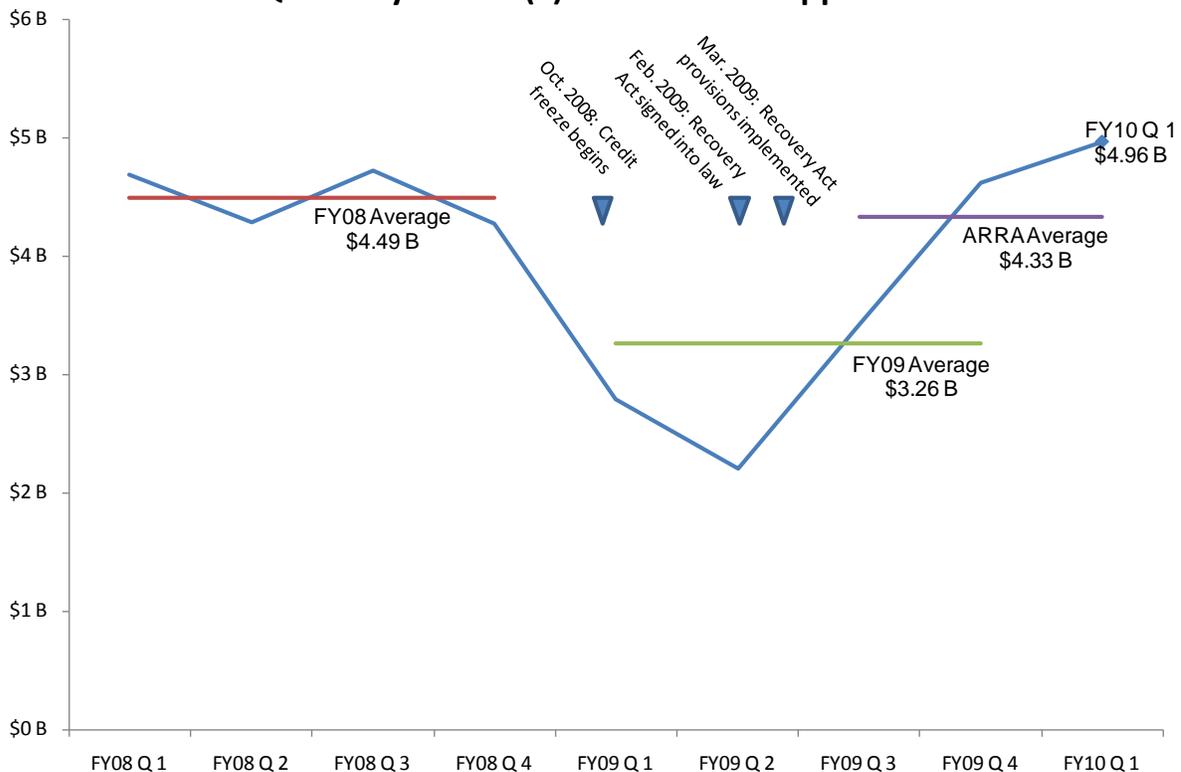
Thank you, Chairwoman Velazquez, Chairman Frank, and Members of both Committees.

Small businesses continue to have problems getting access to capital. We know this is a situation that must be fixed. Small businesses created about 65 percent of the net new private jobs over the past 15 years, so we need a robust small business jobs plan that addresses these credit gaps.

We've already taken an important step forward. I want to thank Congress for passing the Recovery Act and the extension of our 90 percent guaranty and reduced fee provisions.

Over the past year, we have been able to leverage \$500 million in taxpayer dollars into more than \$20 billion in the hands of small businesses. We have also brought more than 1,100 lenders who hadn't made SBA loans since 2007 back to SBA lending. Compared to the weeks before the Recovery Act, this reflects a weekly volume increase of more than 90 percent.

Quarterly Gross 7(a) and 504 Loan Approvals



But we need to do more.

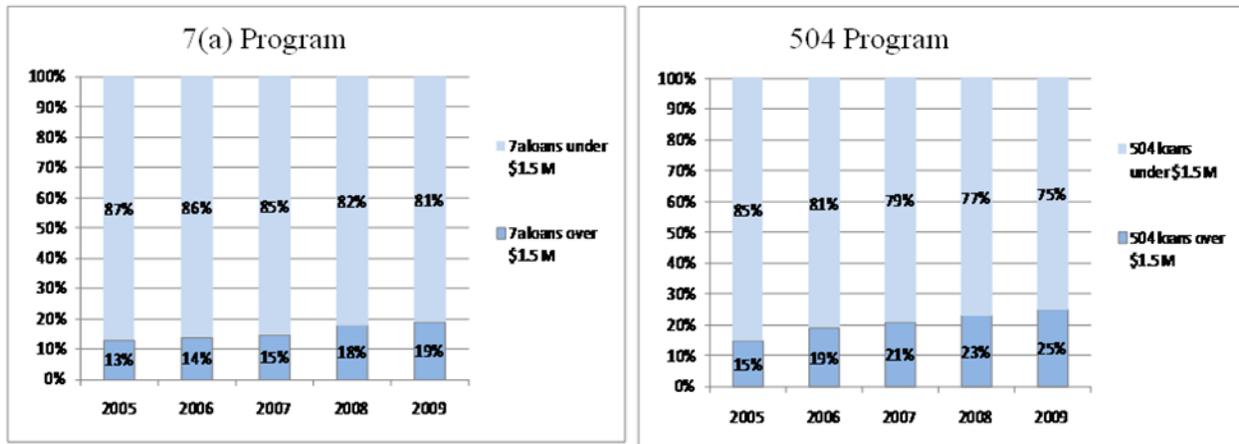
For our Small Business Jobs Plan, we've analyzed the gaps in the current small business lending market, and we have constructed targeted proposals that address the most critical problems.

We're guided by three key principles: build on what works, maximize limited taxpayer dollars, and make targeted changes as quickly as possible.

Our plan has five key components.

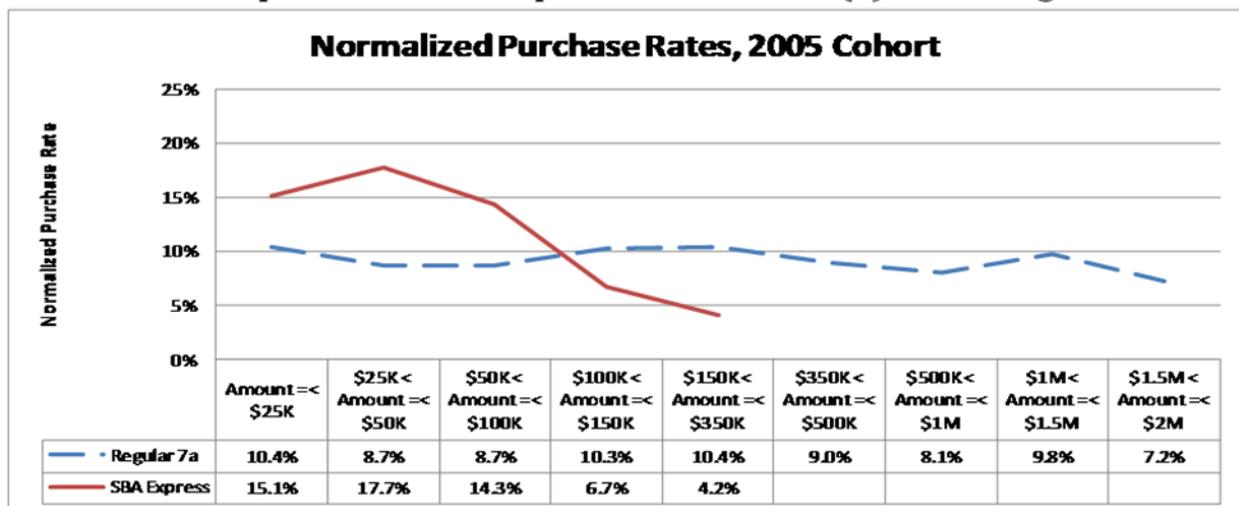
1. First, for community banks that don't have the capital to lend, we need a Small Business Lending Fund, as you already heard described.
2. Second, for banks that have capital but are still having trouble taking risk, we've asked Congress for an extension of the 90 percent guaranty and reduced fees through September. These funds ran out this week, and, already, there are about 370 loans for more than \$140 million in our queue.
3. Third, for small businesses that need bigger SBA loans to create jobs – such as franchisees, manufacturers, and exporters – we want to increase our top loan limits from \$2 million to \$5 million.

**Percentage of SBA Loans Over \$1.5 Million
(FY 2005 - FY 2009)**



4. Fourth, for businesses that can't find access to working capital, we need to temporarily raise SBA Express loan limit from \$350,000 to \$1 million.

Comparison of SBA Express and Overall 7(a) Loan Program



5. And fifth, for owner-occupied small businesses whose commercial real estate mortgages need to be refinanced, we need to open up SBA's 504 program. It's important that we prevent creditworthy firms from facing unnecessary foreclosure and lost jobs. This will allow them to lock-in stable, long-term financing, while freeing up banks to make even more small business loans.

Finally, we know that the Chairwoman and others have asked us to look at direct lending. We spent a lot of time working on this – and we found several important unintended consequences.

- We have 75,000 branches currently making SBA loans. Duplicating their reach would require significant new staff.
- Training and hiring this workforce would take too long.
- This approach is very costly and would increase the subsidy cost from one cent to 15 cents per dollar of lending.
- And we would be competing with – or even replacing – private lenders who are trying to ramp up small business lending, including 1,100 banks that came back to SBA this year.

The problem we are trying to solve is not that small businesses need direct loans. It is that they need direct access to banks that are working with our 90 percent guaranty. This will bring more small businesses into a long-term banking relationship with an SBA lender.

Today, we're providing everyone here with the SBA lender information in your area. And if someone still can't get an SBA loan, we're also providing you with SBA's free counseling resources. Our counselors can help refine their business plans and become creditworthy.

Again, the principles of these proposals are to build on what works, maximize limited taxpayer dollars, and make targeted changes as quickly as possible. We are confident that with these actions – we can move to fill the credit gaps and meet the needs of small businesses.