



U.S SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

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U.S. House of Representatives Committee on Small Business
Subcommittee on Finance and Tax
“Access to Capital for Small Businesses”
April 19, 2010

Thank you, Subcommittee Chairman Schrader and Ranking Member Buchanan. I’m honored to be here, and I’m glad to see so many small business owners in the audience.

One of the missions of the Small Business Administration is to provide small business owners with access to much needed capital. We do that primarily by providing a partial government guarantees on loans given by banks and other lending partners.

This guarantee helps provide access to capital for creditworthy small businesses that would otherwise be unable to get loans. As a result, loans to women and minorities comprise a greater percentage of our portfolio than the conventional lending market. Additionally, SBA has specialty programs for some small business owners, such as our Patriot Express program, for Veterans; Community Express, for businesses in distressed and underserved communities; and the 7(j) program that provides technical assistance to socially and economically disadvantaged contractors that participate in our 8(a) program. In addition, we are also using Recovery Act funds to provide working capital to small automotive dealers. SBA also offers surety bond guarantee programs that can aid contractors in getting bonding support. In addition to these programs, which are administered by my office, SBA has extensive technical assistance programs – including Small Business Development Centers, Women’s Business Centers, and SCORE chapters – and procurement assistance programs, like 8(a) and HUBZones, that can assist small and disadvantaged businesses in accessing business opportunities with the Federal government as contractors and suppliers.

Our programs are lifelines to many small businesses. As someone who has started and owned several businesses, Representative Buchanan, I’m sure you understand the difficulties small businesses face with access to credit in today’s economic climate. Our programs in this area will be the focus of my testimony today.

To address the disruptions in the credit market that came to a head last year, the Recovery Act temporarily raised the maximum available guarantee on some SBA loans to 90% and allowed us to reduce or eliminate most of our fees.

The raised guarantee provided an extra incentive for risk-averse banks to lend to small businesses. The fee reductions made the loans more appealing to borrowers, and put more money in the hands of small business owners who need it.

As a result of these actions and the stabilization of the economy SBA lending has increased by about 90% since the Recovery Act's enactment.

We've turned about 530 million dollars in taxpayer funds since the Recovery Act's enactment into support for over 23 billion dollars in loans to small business owners. This includes over 285 million dollars in lending in Representative Schrader's home state of Oregon, and over 1 billion dollars here in Florida.

I know that times are still tough for small business owners. While SBA's Recovery loans are helping, it's clear that many small business owners are still having a hard time getting access to credit. Declines in home values have hurt small business owner as well, because many entrepreneurs use home equity to finance their business. We know that there is still more work to do.

At the SBA, we have examined how to use our programs to address demand for credit, availability of capital, and risk tolerance, and with the President we have proposed a jobs plan which targets gaps that still exist.

There are 5 key components.

1. First, to address the issue of banks that still have trouble taking risk, the Administration has asked for an extension through to the end of fiscal 2010 of the increased 90% guarantee and reduced fees.
2. Second, for banks that don't have the capital to lend, the Administration has asked that Congress establish a 30 billion dollar Small Business Lending Fund, to provide low-cost capital to community banks to allow them to lend more. This money would come with incentives to increase lending to small businesses.
3. Third, many small businesses need bigger SBA loans to create jobs – franchisees, manufacturers, exporters, others. We want to increase our top loan limits for our eligible 7(a) and 504 loans from \$2 million to \$5 million and from \$4 million to \$5.5 million for 504 loans to manufacturers.
4. Fourth, for businesses that can't find access to working capital, we have proposed to temporarily raise SBA Express loan limit from \$350,000 to \$1 million through FY 2011. These loans will help businesses restock shelves and fill orders coming in.
5. Fifth, we know that many small businesses have conventional, owner-occupied commercial real estate mortgages that will need to be refinanced soon. As real estate values have declined, many banks will find that these businesses no longer qualify for adequately sized conventional loans, regardless of the strength of the businesses. As a result, even small businesses that are performing

well and making their payments on time can have a hard time refinancing these loans and may face foreclosure.

So, we want to temporarily open up SBA's 504 program to commercial real estate refinancing through FY 2011 with an option to extend through FY 2012, if economic conditions warrant it. It's critically important that we help creditworthy firms here in Florida and across the country avoid unnecessary foreclosure and lost jobs. 504 refinancing will allow them to lock-in stable, long-term financing, while freeing up banks to make even more small business loans.

This plan is guided by basic principles: build on what works, maximize limited taxpayer dollars, and make targeted changes as quickly as possible. It addresses specific gaps in supply, availability of credit, and risk tolerance. SBA is confident that this will allow us to better help small businesses in this tough economic climate.

Some people have asked about why SBA doesn't make loans directly to small businesses. Direct lending would require hiring a new workforce and significantly expanding our reach. It would be less efficient than the plan I have laid out, and SBA would not be able to make its first loan for a year or more. Moreover, we believe the partnership with private lenders is important for the sustainability of small businesses and to help target viable enterprises.

We want build on the success of the Recovery Act by expanding points of credit access and bringing more small businesses into a long-term banking relationship with an SBA lender. And we want to increase the number of banks that offer SBA products. Our field staff, here in Florida and across the country, are working to sign up more lenders.

Let me close by saying that the SBA is here to help small businesses. Our field staff and resource partners are standing by to help small business owners and entrepreneurs as they start and grow their business. Small business owners here in Florida have access to:

- Two District Offices
- 35 Small Business Development Centers throughout the state
- 3 Women's Business Centers and a Veteran's Business Center, and
- Several chapters of SCORE, our executive mentoring service

I want to thank you for your support for small businesses, and for working with the SBA to get them the support they need. And I'm happy to discuss any of these proposals and answer any questions.