NATIONAL ASSOCIATION
OF GOVERNMENT GUARANTEED LENDERS

"The Effectiveness of the Small Business Administration"

Testimony Before the Subcommittee on Federal Financial Management, Government Information and International Security of the Senate Committee on Homeland Security and Governmental Affairs

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Submitted by

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NAGGL Gets It.

Mr. Chairman, Ranking Minority Member Carper, and members of the Subcommittee, my name is David Bartram. I am the president of the SBA Division of U.S. Bank. Our division operates SBA lending centers in 24 states, and we are one of SBA's largest lending partners. Last year, US Bank provided $512 million in long-term SBA loans to almost 4,000 firms nationwide. U.S. Bank is a committed small business and SBA lender with an outstanding SBA portfolio of approximately $1.5 billion.

I also currently serve as Chairman of the Board of the National Association of Government Guaranteed Lenders (NAGGL) headquartered in Stillwater, Oklahoma. NAGGL is a trade association of approximately 670 lenders participating in the Small Business Administration's 7(a) loan guarantee program. Our members are dedicated to providing critical capital to our nation's small businesses so that they may grow, hire more employees, and contribute to our nation's economic vitality. NAGGL members generate approximately 80% of the annual SBA 7(a) loan volume as well as most of the lender portion of SBA 504 loans.

We appreciate the opportunity to testify today on the effectiveness of the 7(a) loan program, SBA's largest and oldest guarantee loan program. The SBA 7(a) program fills a critical gap for small businesses that need access to long-term loans. In fact, SBA, through private sector lenders who use the 7(a) and 504 loan programs, accounts for about 40% of all long-term small business loans made in America. This means SBA is the single largest provider of long-term capital to U.S. small businesses. While it is true that commercial banks make many small business loans, these conventional loans typically have short maturities (3 years or less), since short-term deposits fund commercial banks. Therefore, the SBA fills a critical need for small businesses to bridge the credit gap, especially for start-up or early stage companies.

Let me briefly explain how the program works. The SBA has delegated most of the loan making authority to lenders while reserving the regulatory and oversight role of the program to the agency. A significant percentage of the lenders in the program today are preferred lenders who have the delegated authority to attach a federal guarantee to a loan. Less active lenders who generally make only a few loans per year participate in the program with SBA having the final authority to attach a federal guarantee to a loan.

The 7(a) loan program is self-funding. It receives no federal appropriation. Instead, fees paid by borrowers and lenders alike keep the 7(a) subsidy rate at zero. In fact, according to the administration's fiscal year 2007 budget submission, over the last 10 years fees paid by borrowers and lenders have been excessive—more than $800 million dollars in excess fees have flowed into the federal treasury beyond what was necessary. In short, the 7(a) program has been a moneymaker for the U.S. government, not only through this fee income, but in the tax revenues paid by the small businesses, their owners, and their employees.

A good question would be, "How does the small business borrower benefit from the program?" Certainly many small businesses can access the conventional capital market for their short-term needs. That is, they could perhaps get a short-term bank loan. However, the key is the terms and conditions of that loan. Typically, according to bank regulatory statistics, small business borrowers get conventional loans with maturities of 3 years or less, with the bulk of those maturities less than one year. Again, this is in keeping with the lending industry's view that they should make short-term small business loans based on short-term deposits.

Contrast this situation with the fact that the federal guarantee changes the terms and conditions of a conventional loan to make the federally guaranteed loan much more borrower friendly. The guarantee allows a small business to appropriately finance a long-term asset with a long-term loan. Again, according to federal statistics, the typical 7(a) loan has a 12-year term, not a 3-year term. This translates into the borrower having significantly lower monthly payment for a 12-year loan than the borrower would with a 3-year loan. Cash is like gold to small businesses and the federal guarantee allows the borrower to avoid becoming cash strapped by loan terms.

The efficacy of the program is proven by its usage. Over the past 5 years, while the government has been harvesting borrower and lender fee overpayments, the 7(a) program has grown by more than 66 percent. There are countless numbers of small businesses that simply would not be in business today if not for the SBA loan programs. Mr. Chairman, borrowers like Eskimo Joe's, a restaurant in Stillwater, Oklahoma and the Simple Simon's Pizza franchise based in Tulsa, Oklahoma are just a couple of the many examples of small businesses who have been assisted by the SBA 7(a) program.

Just last fiscal year, more than 100,000 small businesses received financing through the SBA 7(a) and 504 programs. These loans totaled approximately $25 billion. For the current fiscal year, it is estimated that the combined 7(a) and 504 loan totals may reach $30 billion. No appropriations are provided for credit subsidies – meaning program user fees are covering the cost of the programs. Over the last several years, SBA has worked to streamline the lending process, helping to reduce the indirect costs of its lending participants. The results are clear – record lending levels in both the SBA 7(a) and 504 programs were realized in FY 2005, with new records expected in FY 2006. This public-private partnership has been and still is a shining example of what can be achieved when private sector lenders and the federal government work together. Like never before, the SBA 7(a) and 504 loan programs are vitally important to tens of thousands of small businesses annually, and these loan programs merit continued bi-partisan support in Congress.

Mr. Chairman, this concludes my prepared statement. Thank you for the opportunity to testify about these programs that are critical to many small businesses. I would be pleased to answer any questions.

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