

Questions for the Record – Sen. Tom Coburn
Hearing on “The Effectiveness of the Small Business Administration”
April 6, 2006

Dr. William Shear, GAO

1. Has GAO work identified a market failure in the private credit market that would indicate the need for government intervention on behalf of small businesses?
2. As you know, part of SBA’s statutory mission is to “maintain and strengthen the nation’s economy” [15 U.S.C. §631(a)]. Does SBA have measures in place to indicate if it is accomplishing that central goal? Are the measures adequate?
3. Is SBA’s mission statement something that can reasonably be measured, or is it too vague?
4. Does the head of the Office of Capital Access review the performance of the head of the Office of Lender Oversight? Does this arrangement pose a challenge to the independence of the Office of Lender Oversight?

Loan Liquidations – 7(a) Guaranteed Business Loan Program

5. How are loan liquidations managed under the 7(a) program?
6. Do you know what the average recovery is for a 7(a) loan liquidation?
7. Does the SBA have the policies and procedures in place to maximize recoveries for 7(a) loans that are guaranteed by the Taxpayers?

Loan Liquidations – 504 Certified Development Company loan program

8. Please describe the process for liquidating 504 loans that are in default.
9. Which party – the bank or the SBA – recovers its losses first?
10. Can you describe the process SBA follows after a 504 borrower goes into default?
 - a. If recovering from the second position, what steps should the SBA take to ensure it recuperates losses?
 - b. If the lender recovers in excess of what it is owed from the borrower, is the lender obligated by law to turn the excess over to the SBA?
11. What is the average recovery on a 504 loan that goes into default?

Dr. Veronique De Rugy, American Enterprise Institute

1. You have contested the SBA’s use of data from the Bureau of Labor Statistics to show that small businesses created 65% of all jobs over the previous decade. Can you explain why you object to SBA’s methodology in this regard?
2. Do you feel that job creation is a good measure of success for SBA programs? Do you believe that job creation alone is an appropriate end for public policy?

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3. What do you feel has been the impact of subsidies targeted at small, medium and large businesses?
4. Would you propose an alternative model to the current one with so many targeted subsidies?
5. In your research, what do you believe is the extent to which small businesses in general benefit from programs offered at the SBA? Who are the biggest beneficiaries of SBA programs?

David Bartram, NAGGL

1. In the article submitted for the record, *Bankers Bullish on SBA Loans*, (Silicon Valley/San Jose Business Journal, April 7, 2006), it states that SBA lending is extremely profitable for businesses. Are small businesses being actively courted by lenders to make SBA loans? In your opinion, is that proper since SBA loans are available to companies that cannot get “credit elsewhere?”
2. As a lender, do you believe that there is a market failure in the free credit market that requires government intervention? If so, please provide evidence.
3. At the hearing, you agreed to make the following information available for the record:
 - A list of the top 30 SBA lenders, by dollar and volume, from 1998-present
 - SBA’s total loan portfolio for both the 7(a) and 504 programs, 2004-present
 - 7(a) and 504 loan volume by State, 1998-present
 - 7(a) and 504 loan volume by industry, 2004-present
 - How often 7(a) and 504 loans fail by industry
 - 7(a) program loss reports, 1975-present
4. How many banks and lending institutions make SBA-guaranteed loans under the 7(a) program?
5. What percentage is that of all banks and lending institutions?
6. If a small business were to try and get the terms offered to them under the 7(a) loan program, what kind of a rate would that company get in the private sector?
7. How do SBA loans affect the marketplace for businesses that don’t get SBA loans? Does it help them or put them at a competitive disadvantage?
8. You said in your testimony that SBA provides 40% of all long-term small business loans. How many is that per year?
9. What percentage are long-term loans of all loans made to small businesses?
10. As one who represents those making SBA-backed loans, what are the common reasons small businesses need government-backed loans?

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John Pointer

1. In your opinion, what is the best thing the federal government can do to help small business owners? How about disadvantaged small business owners?

SILICON VALLEY / SAN JOSE

Business Journal

Bankers bullish on SBA loans

Silicon Valley/San Jose Business Journal - April 7, 2006 by [Raksha Varma](#)

Looking to build on their increased SBA lending last year, local bankers say they are aggressively courting small businesses that are on the prowl for cash.

"By far, the most profitable business for us is SBA lending," Santa Cruz County Bank President and Chief Executive Officer David Heald said. "The bank is on target to meet the same goals as last year -- if not more."

In addition to targeting the more traditional small businesses who get SBA-guaranteed financing like retailers and manufacturers, area banks are going after companies engaged in the life sciences, "green" energy and semiconductor fields.

"This momentum is going to continue," Silicon Valley Bank Chief Operating Officer Greg Becker said. "Life sciences are huge. As baby boomers get older, more medicinal drugs are produced. The IT sector and green energy markets are also gaining momentum for us."

The Small Business Administration's San Francisco District -- which includes 13 counties from Monterey Peninsula up to Portland, Ore. -- reported total loans increased about 2 percent to \$749 million for its 2005 fiscal year, which ended Sept. 30.

Santa Clara County led all counties with 553 loans totaling more than \$189 million. On a national scale, the regional district ranked fourth-largest for both SBA 7(a) and 504 loans, in terms of dollar amount. More than half of all SBA 7(a) dollars went to minorities -- the majority of them in the Asian community, which registered 712 loans.

Now at the midpoint of a new fiscal year, SBA lending continues to be a highly profitable niche for Northern California banks. Sometimes reluctant to offer long-term loans to small firms, lenders are protected by the SBA's guaranteed loan program. The 7(a) loan program -- SBA's primary business loan program -- helps small businesses obtain financing when they may not be eligible for loans through normal lending channels.

"The 7(a) could drop a little as it is tied to the prime rate," Mark Quinn, director of the SBA's San Francisco office, said. "The high costs of energy and real estate are also at play here."

There is also a 504 program, which assists small businesses requiring brick and mortar financing (real estate or machinery, for example, for expansion or modernization).

"But the 504 program and total dollar amount is expected to go up," he added.

Local business banks, such as San Jose-based Bridge Bank, are concentrating on specific small businesses to increase their SBA loan totals. The same goes for niche banks like Santa Clara-based Silicon Valley Bank, on the brink of identifying early-stage companies. Still, others -- First Bank, for example -- are beefing up their commercial lending departments.

"Each bank is different," Mr. Heald said. Santa Cruz County Bank, a 25-month-old community bank, ended last year with 17 SBA loans. The bank's SBA loans range from \$50,000 to \$2 million. The average loan is about \$350,000 for a company employing 2 to 40 people.

"Our plan is different from a mature bank's plan," he added. "Retail is huge for us, more businesses are up and coming in this area. Looking ahead, the banks plan to pull in at least \$2 million per month in these loans."

Charlotte, N.C.-based Bank of America led the pack last year with 442 loans. Its closest competitor, San Francisco-based Wells Fargo Bank, weighed in with 252 loans. Innovative Bank, an Oakland-based institution that targets the African-American and Asian communities, registered 103 loans, making it the fifth-largest lender in the district.

On a local scale, Bridge Bank plans to exceed last year's total (27 loans) by zeroing in on specific business sectors, including small manufacturers, retail establishments and professionals (dentists and real estate brokers, for example, are part of the bank's current portfolio). "We plan to target more small manufacturers," Bridge Bank Senior Vice President Ken Manina said. "It's been a key area for us."

The bank's SBA loans range from \$500,000 to \$2 million, with \$1 million as the most used loan amount for companies that usually employ 30.

Recently, SOS Steel, a structural steel company headquartered in Santa Clara with 50 employees, received an SBA 7(a) loan for \$2 million from Bridge Bank after a six-month process initiated by the company in August.

"Bridge really helped us," SOS Steel Vice President Gary Meade said. "And the process was not difficult."

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